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High Performance

KLABIN: Growing the capabilities of local suppliers to ensure effective co-creation

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Case Study



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Co-creating products with local, low-income communities can be one of the most effective methods for developing a valuable long-term relationship with tomorrow's middle class. But forging the necessary partnerships to co-create can be extremely difficult; often because local communities and businesses lack the skills and resources to be useful contributors to a large company's value chain. Klabin has overcome that challenge: By making targeted and continual investments in capability development at the local level, the company has discovered that co-creative partnerships can be mutually beneficial and sustainable.

Impact of the inclusive business initiative

Introduced in 1987 in the southern state of Parana, Klabin's Forestry Incentives Program was launched as part of the company's efforts to improve local community involvement in its commercial operations.

The program reached out to all types of farmers within a 200 kilometer radius of the company's paper manufacturing plants. But Klabin's leaders believed that to increase its chances of success, the initiative would have to become particularly good at engaging the owners of small and medium-sized farms. They recognized that Klabin would need to provide end-to-end support in order for these farmers to become viable members of the paper industry—a global industry with a supply network traditionally dominated by large producers.

Today that support begins with Klabin providing farmers with seedlings of the same genetic quality as used by the company itself. Klabin also provides the latest in farming technologies, and training on their use. And it offers farmers temporary collateral to help them tap into credit facilities from local banks and other credit institutions.

Seventy percent of the farmers associated with Klabin now are small and medium-sized farmers. Klabin purchases close to 10 percent of its total timber requirements from these local farming partners and plans to double that amount over the next couple of years. Since its inception in 1987, the Forestry Incentives Program has managed a total of 85,000 hectares of planted area in Parana. In 2011, the program included 18,000 farmers who managed 45,000 hectares, and from these farmers, Klabin procured timber from 8,375 hectares.

Clearly, the program has delivered socio-economic benefits. According to company statistics, more than 98 percent of farmers who participate in the program experience an increase in their income. Furthermore, it's estimated that in per capita terms, program participants have realized an average income growth of 49 percent over the past eight years.

Beyond improving local farmers' incomes, Klabin has also made considerable strides in the area of forestry conservation. The program has reforested about 50,000 hectares in Brazil.

Barriers to scale

Higher transaction costs: Engaging with a large number of small and medium-sized farmers significantly increases transaction costs for Klabin and is a threat to the company's competitiveness. While doing business with such farmers is part of Klabin's inclusive growth strategy, managing the large number of contracts has proven to be a time-consuming and expensive task.

Unstructured business environment:

In order to successfully implement this program, Klabin must operate in areas where businesses are often informal—that is, unregistered with any government entity. This throws up numerous challenges toward creating a stable "industrial cluster" in the region.

Strategies for success

Consistently emphasizing the importance of inclusive growth and environmental sustainability to the long-term business agenda: Klabin has been operating in the state of Parana for almost 80 years, and maintaining environmental sustainability has been a part of its strategy since the beginning. What's more, Klabin's leaders believe fervently in—and consistently emphasize—the importance of local community development to the company's growth potential.

To communicate these messages, Klabin's leaders have created a separate Forest Department (independent of the Forestry Incentives Program) within its organization to oversee the company's environmental "friendliness" and its efforts to promote inclusive growth. Along with ensuring Klabin practices sustainable harvesting, the Forest Department also promotes regional



development by looking for new ways to involve local communities in production. By involving local communities in sustainable timber production, Klabin addresses buyer, media and government concerns about the environmental and societal benefits of the company's production techniques.

Co-creation through end-to-end support for local farmers: Klabin offers a set of services and opportunities that enable those operating small and medium-sized farms to create self-sufficient and sustainable businesses. The services Klabin provides address pain points across the agricultural value chain, from accessing quality seeds and raw materials to receiving credit and financing to grow their business.

Klabin also offers support for farmers through means that go beyond the company's own sourcing operations. For example, the company launched an initiative to develop the furniture industry in the Parana region. This venture enabled

farmers to have an alternative source of demand for their products. The furniture industry in turn has generated greater employment and income in the region, reducing the income concentration among large farmers.

Partnering with government to scale the program: While the Forestry Incentives Program has been operational since 1987, it only began to achieve commercial scale in the last decade. That success can be attributed to Klabin's 2004 partnership with government financing programs such as Pronaf and Low Carbon Agriculture (ABC), which provide lines of credit to small, family-owned agriculture businesses and low-carbon agriculture businesses. Both of these financing programs are backed by the state-owned Brazilian Development Bank and have helped small and medium-sized farmers, and thus Klabin, scale its operations.

"Klabin's Forestry Incentives is a sustainable economic activity that combines income generation and environmental preservation by encouraging forest cultivation. What makes the program unique are the opportunities and the social and environmental benefits offered by the company to small and medium-sized farmers, who are also given technical support throughout all phases of farming, assuring correct forestry management and a more efficient use of the land."

**—José Totti,
Klabin's forestry director**

Company information

Founded in 1899, Klabin is Brazil's largest paper producer, exporter and recycler, operating 17 industrial plants across the country. Klabin manages 212 thousand hectares of planted forests and 192 thousand hectares of preserved native woodlands. In 2011, Klabin recorded net revenues of R\$3.9 billion (US\$2.1 billion) having grown by 193 percent over the past decade.

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