

Domestic Linerboard Prices Did Not Change in September

There was no change in linerboard for September.

Box demand continues to be steady, but as we have mentioned in prior posts, demand has reached a low point over the last two years, stopped declining, but has not substantially rebounded. The prior increases have had very little traction in the market. Some major customers are forcing suppliers to delay implementation, this is negatively impacting operating margins for those box converters who are paying the increases from the mills.

We continue to see mills operating rates close to **92%** of capacity as reported in Q2. This is an ongoing effort to manage supply in what is basically a flat demand landscape. The looming port workers strike will impact OCC exports (Old Corrugated Container) and drive-up domestic supplies of OCC (a critical input to making corrugated medium and liner). There is little market data to support an increase in this market.

We believe it will be difficult for the industry to raise corrugated box prices during the holidays and through the end of the year.

Cascades Announces \$40/ton Increase for October 7th

Cascades announced its third price hike of the year, proffering a **\$40/ton increase** for liner and **\$70/ton increase** for medium effective October 7th, 2024. Cascades is the sixth largest containerboard producer in North America. Cascades announcement is related a reported uptick in demand, but more the result of shipment delays due to the shutdown of the Ashland, VA recycled containerboard facility for repairs.

No other producers have come out with price increases as of this writing, and we do not expect to see anyone coming to Cascades "increase" party.

As we often discuss in this newsletter there is little disincentive to announce a price hike. Even if you are out there alone, it acts as a market signal to the other producers ("competitors") that you are up for an increase if they are willing to jump on board.

It is also worth noting that Cascades Containerboard reported a 10% margin for the second quarter, which is half of the top industry performers.

Welch Packaging Acquires Capitol City Container in Indianapolis

Welch packaging has purchased Capitol City Container. This will provide a downstream converting output for the IndyCorr corrugated operation that Welch started in Indianapolis back in 2023.



Demand Interval and Variability

As we often discuss in this newsletter, corrugated packaging is an inexpensive product that is expensive to own, and crippling when its not available to ship products.

A survey of corrugated buyers and users report:

- Missed due dates
- Low OTIF (On-Time In-Full)
- Consistent problem with mis-manufactured boxes

They say this is a serious ongoing problem they must consistently manage.

They also report that the **number one** problem they face is maintaining an adequate supply of boxes to ensure operations is not impacted by a lack of corrugated packaging.

This is especially true of customers who are engaged in end of line packing and the ecommerce segment where same day shipment is a critical customer value.

The second issue they cite as a major problem is managing a wide array of SKU's that consume a lot of warehouse space. The two problems are related to the performance issues they cite in the survey.

As a buyer, not having a box is a high visibility failure. It shuts down production, delays order fulfillment and drives down customer satisfaction in a very public and tangible way.

To prevent this very negative outcome, buyers have learned to rely on themselves. They are forced to build "safety stocks" of the corrugated packaging, which has a host of hidden costs.

They do this because they cannot rely on their vendors to make and keep commitments.

The corrugated industry loves this solution. It allows them pass long the costs of failure to their customers. Additionally, they get to run larger quantities, reduce shipment costs, eliminate

storage costs and perform badly without any real-world impacts.

At Tavens we find it amazing that customers are willing to put up with this for a few percentage points off a product that is already very inexpensive.

We solve the problem differently.

Working closely with customers we have developed a powerful set of tools that allows us to ensure that customers always have the packaging they need, without having to store it, manage it and pre-pay for it.

One key tool is our **Demand Interval and Variability Analysis**. This is a process where we work closely with customers to reduce inventories, ensuring that packaging demand is met 100% of the time. We collect data over time that allows our team to fine-tune the Interval and Variability characteristics of every SKU a customer has to ensure that our customers have every box they need when they need it.

Most of our competitors want you to consolidate box SKU's to increase volume and to reduce the complexity of the problem. However, most box SKU's exist for a reason. A box works best when it is the right box. We have all seen the ridiculous situation where a box is way too large for what is inside. This is how a box-maker solution creates a negative customer impression.

At Tavens, we want to ensure that you have every box you need when you need it, not just the easy ones.