

# Sustainability Case Study: Newpack (Madagascar)

## Newpack's Story

A Malagasy entrepreneur founded Newpack in 1989. During twenty years of operations, he grew the company with his own financial resources by acquiring second-hand equipment and leveraging the assistance of two expatriate managers in the company's production and maintenance departments. Over the years, the founder built up a highly successful company from its headquarters in the capital city of Antananarivo.

In 2006, the founder decided it was time to "realize cash before getting too old." He reached out to Antoine Delaporte, the founder and Managing Director of I&P Management, whom he had known for a long time, to discuss succession options. In the course of discussions over an 18-month period, the scenario of a total exit became the preferred option. Beyond the financial benefits to the founder, he was confident in I&P's capability to take over the business and build a new generation of leaders for the company.

### Newpack's Operations in Madagascar



At the time of acquisition, Newpack had captured 60% of the Malagasy market—where the bulk of the company's clients were concentrated—and was generating total annual revenues of roughly US\$9.6 million with 215 permanent employees. The company, which received an ISO 9001 certification in January 2002, had a production capacity of 15,000 metric tons per year as well as the quickest delivery lead time in Madagascar as a result of its investment in five printing/transformation machines. In July 2008, I&P took 100% control of the SME.

## The Role Played by Private Equity

**I&P considered an investment in Newpack as a perfect match with its fund strategy as: first, it promised to generate sizeable financial returns to the fund's investors, and second, it was a great platform for driving broader economic and social developmental impacts in the region.**

Newpack clearly showed a competitive edge in the market: it had a domestic market share of 60%—two times larger than its direct competitor—in a capital-intensive industry with significant barriers to entry. Moreover, the company had strong and regular cash flows with little exposure to exchange rate risk and a clean, debt-free bal-

ance sheet. I&P could unlock value through improved working capital management and by empowering middle management, which had previously been working under the shadow of the company's founder.

In addition to Newpack's promising financial return, the company showed significant potential for a strong development impact. The company had roughly 400 clients serving almost all sectors of the Malagasy economy. Moreover, in the case of Newpack, I&P's development impact sought to fight poverty by sustaining employment with living wages in the face of political instability and an economic slowdown. On average, Newpack staff is paid 31% above the national minimum wage. ▶

### The Company



### Essentials

**Company:** Newpack, [www.newpack.com](http://www.newpack.com)

**GP:** I&P Management (I&P), a private equity fund manager active in Africa and based in Madagascar, Mauritius and Ghana ([www.ip-mngt.com](http://www.ip-mngt.com))

**Region:** Africa

**Country:** Madagascar

**Sector:** Manufacturing

**Business focus:** Corrugated cardboard packaging for transformation industries (e.g., textiles, household goods, food and beverage, agriculture and fishing)

**Size:** Revenue US\$10.4 million<sup>1</sup> (2010); 242 employees (2011); 460 clients

**Investment:** I&P Management acquired 100% of Newpack in July 2008 through a leveraged buyout—the first LBO involving Mauritius and Madagascar

### Impact Highlights

Newpack leveraged its sustainability achievements to attract new clients, including one of Madagascar's leading seafood companies, and to penetrate export markets (Mauritius, Seychelles and la Réunion island)

Through resource efficiency and the recycling and sales of paper waste, Newpack generated roughly US\$539,000 in savings and income over two years

Over three years, Newpack's sustainability initiatives led to dramatic reductions in resource consumption, including decreases in electricity (29%), water (47%) and starch (5%) usage

With I&P's help, Newpack designed and implemented an Environmental and Social Management System to track performance metrics and prioritize corporate sustainability objectives

<sup>1</sup> All currency figures have been converted from € to US\$ as of 19 August 2011.



**“We identified a huge potential for value creation through E&S performance monitoring... with majority ownership of the company we were well positioned to generate financial returns through improved E&S standards.”**

Céline Rabemampianina, Investment Associate, I&P Management

► During the pre-investment phase, I&P’s due diligence process revealed that Newpack had no environmental and social (E&S) policy in place, which was presenting risks but also opportunities. Céline Rabemampianina, an Investment Associate and E&S Officer at I&P notes that the lack of E&S standards ultimately proved to be an asset: “We identified a huge potential for value creation through E&S performance monitoring. This is a key component of I&P’s strategy, and with majority ownership of the company we were well positioned to generate financial returns through improved E&S standards.”

Since the acquisition, I&P has worked closely with Newpack senior management to professionalize business management systems and reporting, and to provide advice and guidance on business strategy. As a non-executive shareholder, I&P leverages Newpack management to achieve common goals by primarily using management accounting and capital expenditure budgeting reviews, as well as executive committee meetings to shape Newpack’s strategic and operational guidelines. Sustainable environmental and social policies lay at the core of these discussions.

## Increasing Newpack’s Value Through Sustainability

**One of the first initiatives I&P pursued following the buyout of Newpack was to conduct a post-investment audit on the company’s E&S standards and performance. IFC’s Performance Standards on Social and Environmental Sustainability were critical in helping I&P to analyze Newpack comprehensively. IFC’s questions enabled I&P to identify issues and risks within the company but also to point out strengths and opportunities.**

The responses to IFC’s Performance Standards led Newpack and I&P to design and implement an Environmental & Social Management System that facilitated management’s ability to:

- Identify and prioritize E&S objectives;
- Elaborate upon corrective action plans;
- Establish dedicated E&S budgets;
- Monitor progress toward E&S objectives through a corporate dashboard, which measured data on social indicators, waste, energy savings and resource consumption; and,
- Set up a company-wide cash bonus incentive system that drove reductions in Newpack’s environmental footprint.

The sustainability strategy enabled Newpack to penetrate new markets, to capture sizable cost savings and revenue opportunities through resource efficiency, and to increase employee health and safety standards.

### New Markets

The sustainability strategy created exciting opportunities for Newpack. In 2010, one of the largest companies in Madagascar—a leading shrimp exporting company with yearly output of 7,500 tons—was made aware of Newpack’s commitment to sustainability. While this company appreciated Newpack’s ISO 9001 certification (only 20 companies in Madagascar have

achieved this credential), it wanted to source its packaging from an environmentally and socially responsible supplier.

As soon as Newpack was able to demonstrate its dramatic reductions in resource use, improvements in workplace hygiene and advanced production processes, the seafood company undertook several site visits and soon decided to shift 100% of their cardboard purchases to Newpack. This company is now one of Newpack’s top 10 customers, out of approximately 460 clients, and its business has helped to develop export markets in other Indian Ocean countries, which now represent 19.8% of total sales versus 2.5% at the time of acquisition.

In mid-2009, Newpack started to sell paper waste to a local paper mill, which in turn sold the recycled paper back to Newpack for their production needs. In 2010, Newpack generated roughly US\$150,000 in income through waste paper sales.

When the local paper mill shut down in early 2011, Newpack had to find new buyers of its paper waste; it identified one Indian mill and one Vietnamese company, which subsequently brought in US\$36,000 in waste paper sales from May to July 2011.

### Cost Savings and Resource Efficiency

#### Resource Efficiency

The implementation of Newpack’s Social and Environmental Management System revolutionized the company’s perspective on product inputs—primarily water, electricity and starch—while creating new ways to monetize unused outputs (e.g., waste). Over three years, Newpack has reduced electricity consumption by 317 megawatt hours, water consumption by 11,000 cubic meters and—for years one and two—starch consumption by 14 tons. ►

# Enhancing Newpack's Sustainability Profile

The initial step in enhancing Newpack's sustainability profile was for I&P to convince company management of the relevance and legitimacy of sustainability initiatives. This posed a bit of a challenge to the fund manager, given its non-executive role and its reluctance to enforce policies not mutually agreed and decided with management.

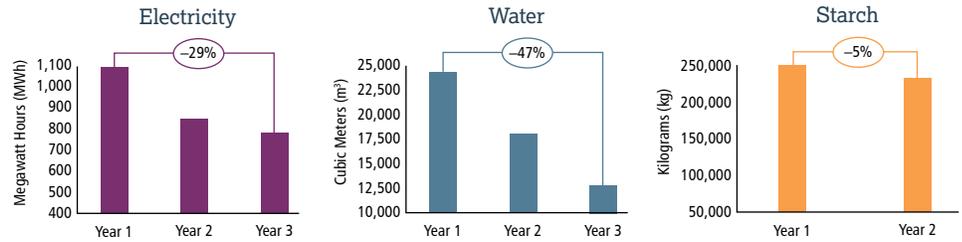
Once management was on board, the second task was to raise employees' awareness about environmental and social issues. According to Xavier Rosenrib, "in Madagascar, it is not an established practice for employees to be trained on environmental considerations; explaining the importance of sustainability and resource conservation to our employees was our top priority." Newpack hosted and organized internal training sessions, created brochures and posted sustainability billboards throughout the factory.

Convincing employees of the merits of sustainability was a difficult task. For example, the cost of safety shoes represents up to one third of an employee's monthly wage, making it hard to convince employees to wear them as a safety tool instead of selling them to get additional money. Moreover, it was difficult to advocate sustainable development priorities when no legal framework is in place at the national level to support the company's initiatives.

Nevertheless, having successfully developed a culture of sustainability within the company, Newpack has just begun to market its sustainability initiatives discretely to select clients. While Newpack's clients that are sensitive to E&S issues are satisfied with the company's standards, I&P and Newpack have decided not to market their progress on a broader scale because they believe there is more progress to be made, especially in the environmental field.

The only limited marketing initiative Newpack has undertaken on a broader scale was to provide cardboard bins for the Madagascar International Fair. However, once the new wastewater treatment plant is operational (end of 2011), Newpack will be in a position to market their environmental and social enhancements to a broader audience.

Reductions in Resource Consumption 2008–2010



► Paper represents 66% of the firm's total costs, so Newpack undertook a collective effort to raise employee awareness about reducing consumption and waste, and reusing and recycling paper. According to Newpack Managing Director Xavier Rosenrib, management "posted billboards in the factory with production costs of cardboard boxes; this way people could know what it costs to waste or destroy a box without a good reason."

Newpack uses a variety of recycled papers in its operations: fluting paper—which is used for the corrugated part of the cardboard packaging and is made of 100% recycled paper—constitutes 39% of Newpack's paper consumption. The testliners and whiteliners used for exterior and interior covers are made of roughly 70% and 30% recycled paper, respectively. In total, partially or wholly recycled papers constitute 81% of the paper used for production.

In addition, Newpack invested in a new boiler to compress cardboard waste into balls for recycling, and refurbished an unused boiler such that it was capable of creating denser paper balls—450kg versus 200kg.

Newpack purchased a new boiler to replace its outdated waste paper boiler because it threatened employees' safety. While the company considered purchasing another biomass boiler, it opted to invest in a diesel boiler instead because it created more permanent and stable steam pressure.

Newpack now meets international industry benchmarks for resource efficiency. The company evaluated IFC EHS GIIP guidelines for the printing industry, but since they did not fully apply to the corrugated cardboard industry, Newpack contracted European consultants to assess the

company's environmental footprint relative to appropriate industry benchmarks. The consultants confirmed that the indicators Newpack used for monitoring use of resources were relevant, and that the company's results were in line with international industry standards.

## Wastewater Processing

I&P and Newpack believed that the construction of a new wastewater treatment plant was a priority. In early 2010, Newpack conducted a comprehensive analysis of wastewater facilities and explored policies in similar industries for new ideas on sustainable water usage.

By November 2010, Newpack was experimenting with ways to recycle wastewater by reusing it for the production of corrugated cardboard. This process helped the company simultaneously to identify ways to reduce water consumption while decreasing the volume of effluents that needed to be treated; it also helped the company determine the appropriate size for its incipient wastewater treatment plant.

By early 2011, external consultants issued recommendations on how to limit the volume of effluents. These recommendations have generated new ways to reduce pollution and reduced the cost of the planned wastewater treatment plant, as fewer effluents incur lower treatment costs. Newpack started the construction of their wastewater treatment plant in June 2011, and it is due to be operational by the end of the year. When complete, the treated wastewater will be recycled to make glue.

## A Focus on Health & Safety

A key priority for management was to increase employee safety through the adoption of a company-wide fire plan. Newpack undertook a complete refurbishment of the company's ►

## ESG Initiatives

- Hire external E&S consultants
- ESG awareness training for employees
- Development of Fire Plan (alarms, emergency exits, etc.)
- Focus on hygiene in the workplace
- Energy savings and waste management

## Impact on Newpack's Value

- Improves brand image
- Confers greater pricing power
- Facilitates employee recruitment and development
- Increases employee productivity
- Improves risk management
- Reduces financing and insurance costs
- Improves brand image
- Attracts new customers and new business opportunities
- Creates operational efficiencies
- Expands profit margins through cost savings

# The Company View

**"I&P has been a critical partner in several ways. First, I&P raised my awareness on sustainability, which is crucial because it enabled me to foster a change in mentality throughout the company."**

"Second, through the Social and Environmental Monitoring System, which we launched jointly with I&P, I learned how to manage the numerous E&S projects we had underway, and to do so by relying on my managers. They were critical in helping Newpack to set up a fire plan, construct a new wastewater treatment plant and empower our HR department and employees.

"Finally, I&P helped me to develop communication skills toward my employees so that I could provide a real educational impact. I&P's support and value creation capabilities have been precious to me and to our company."

**"Developing a socially responsible and environmentally sustainable business has become one of the largest priorities of Newpack over the three years we have been working with I&P."**

Xavier Rosenrib,  
Managing Director,  
Newpack



fire protection facilities and trained 78 employees on fire prevention and firefighting. Additionally, the company sponsored 18 employees to undergo first aid training provided by the Malagasy Red Cross.

Following a fire in Newpack's secondary production unit in Antsiranana in July 2010, management immediately implemented new procedures to complement the initiatives already underway, including assessments and equipment testing with local firemen, the refurbishment of fire hoses and extinguishers and investments in alarm systems. In total, Newpack has invested US\$53,000 in its fire plan.

In addition to its fire-fighting policies, the company purchased personal protective equipment (PPE) for employees and developed a Hygiene, Safety, Occupational Health, Social and Environmental Charter. All employees were given copies of E&S internal brochures—available in both Malagasy and French—which provide environmental and social (including hygiene, occupational health and safety) best practices. The number of minor employee accidents decreased by 20% between 2009 and 2010, and no major

accidents have occurred since I&P's investment in 2008.

## Financial Returns

Since the acquisition by I&P, Newpack has invested US\$220,000 in social and environmental projects. To date, these investments have yielded total savings or generated additional income to the firm of nearly US\$539,000, roughly 5% of Newpack's 2010 revenue. This represents a 145%

**Investments in E&S Sustainability**  
Newpack's investments in E&S activities generated a 145% ROI



return on investment in just three years. Moreover, as a result of its continued fire and safety improvements, Newpack has not faced increased insurance premiums, notwithstanding the fire that broke out in one of its facilities in July 2010.

Newpack employees are now confident that sustainability and resource efficiency pay. As Xavier Rosenrib notes, "At the end of the year, for the first time, there will be a bonus for all employees based on the ratio of waste over the realized turnover. The more we conserve, the more our employees benefit."

## Results of the Partnership

**Together, Newpack and I&P have weathered recent political and economic turbulence in Madagascar, growing the company's workforce to 242 employees and annual revenues to US\$10.4 million. First half 2011 turnover is 32% higher than in 2010. The company now captures 70% of the domestic market for corrugated cardboard and exports now represent 19.8% of total sales.**



Newpack and I&P are working together to expand their sustainability efforts and performance—partly by developing new E&S indicators so that management can identify additional ways to generate revenue through sustainability initiatives, but also by reaching

out to external consultants when necessary to bring in fresh ideas and maintain positive momentum in implementing E&S programs. I&P and Newpack believe these efforts are critical to help keep the company profitable in today's uncertain global economic environment.

### About IFC

IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector. We help developing countries achieve sustainable growth by financing investment, providing advisory services to businesses and governments, and mobilizing capital in the international financial markets. In fiscal 2011, amid economic uncertainty across the globe, we helped our clients create jobs, strengthen environmental performance, and contribute to their local communities – all while driving our investments to an all-time high of nearly US\$19 billion. For more information, visit [www.ifc.org](http://www.ifc.org)

In partnership with Norway, IFC is providing support directly to private equity and portfolio companies to manage sustainability risks and identify environmentally beneficial business opportunities in Africa. IFC is training fund managers, providing resource efficiency assessments for portfolio companies, and supporting research on "clean technology".