Salvador Montes – Director of Operations, Essentra Packaging, Puerto Rico



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Salvador Montes, director of Essentra Packaging in Puerto Rico, explains how the company has positioned itself as the preferred supplier of secondary packaging to the life sciences industry on the island by offering a complete start-to-end solution, from design to manufacturing, as well as by remaining price competitive through productivity enhancement, securing available capacity to support rapid global launches across different markets, and strengthening their business continuity plans to ensure reliability in supply.

Could you start by introducing our international readers to the manufacturing footprint of Essentra Packaging on the island?

We operate two facilities in Puerto Rico. Our site in Guaynabo is fully dedicated to the manufacturing of folding cartons, while our plant in Manatí site, produces inserts and labels, which makes us the only supplier able to provide the three ingredients of a complete secondary packaging solution to pharmaceutical and medical device companies on the island. Together, these two sites contribute 33 percent to the global revenue of Essentra Packaging. Owned by the Puerto Rico Industrial Development Company (PRIDCO), the Manatí facility also includes extensive warehousing space for customers wishing to implement a safety stock or Vendor Managed *Inventory* (VMI) whereby they can place an order for several months, while we store the products

and send deliveries on a weekly or monthly basis.

Each site houses a design studio working closely with the customer's design team on the appearance of the product before it goes to the printing press. In addition to design capabilities, each facility has its own commercial and customer service team which allows us to cultivate a close relationship with our customers. Recently, we have started visiting our customers' facilities in order to look at their processes and figure out how we can improve their productivity using our products. We are always asking our customers about their strategy and next step to try and identify additional capabilities we need to offer.

Thanks to these capabilities, we can answer all the requests from our customers and support them with rapid launches for a new product introduction.

Do you only supply pharmaceutical companies in Puerto Rico?

98 percent of the products manufactured here are used in the packaging operations of life sciences companies in Puerto Rico. The other 2 percent is shipped to the US mainland, where Essentra runs five other facilities, or Europe as we are an approved supplier for a pharmaceutical manufacturer in Italy. About 80 percent of our customers are pharmaceutical companies, but we also supply medical devices companies. We are the largest supplier of secondary packaging to life sciences companies in Puerto Rico, controlling about 50 percent of the market, which makes us the partner of choice for pharmaceutical and medical device manufacturers on the island.

As an outsider, what would you highlight as the competitive advantage of PR compared to other manufacturing hubs?

In addition to being bilingual and hard-working individuals, I think Puerto Ricans are very well-educated thanks to outstanding local universities. As the pharmaceutical industry has been here for decades, the level of know-how and expertise is simply amazing. Anytime we are looking for someone to integrate to our team, we know that we will find someone with a strong pharma experience, which simplifies our recruitment processes. In other industries, such as the automotive industry, positions in manufacturing engineering or quality engineering are more generic. But in pharma, you need engineers with unique skills and abilities who are difficult to find outside of Puerto Rico. You also need people with a high sense of urgency as the pharma industry is fast paced. As soon as the FDA approves a drug, it needs to be on the market in the next 10 to 20 days.

As a critical supplier, we need to react fast to help our customers reduce their time-to-market. Our people understand this reality and work hard to make support our customers.

In May alone, Essentra's Americas Packaging team has supported 247 launches for pharmaceutical customers. How do your operations in Puerto Rico support life sciences companies with new-to-market global drug launches as well as smaller scale regional product introductions?

In the past, we mostly supported our customers' launches in large pharmaceutical markets. As a result, the literature was mostly in English, French and German. But in the past few years, we do what we call Rest of the World launches which means that the drug is going to many different markets and all the printed text needs to be written in the respective language. Consequently, production has shifted to low-mix high-volume to high-mix low-volume. Moreover, pharma companies expect a fast reaction time each time approval is granted in a new country. Year-to-date we have supported 72 product launches, which has increased a little more than 20 percent compared to last year, which means that companies are exporting to more markets. For that reason, we have made sure that we have available capacity for our customers in order to react faster, as it some cases, they ask for six to twelve hours turnaround.

Integrating all the functions on the site, the design, commercial, customer service and technical team, is part of our strategy to react faster. Some of our competitors might have the same capabilities but not locally. For successful worldwide product launches, life sciences companies must go with Essentra.

One of the main risks for manufacturers in Puerto Rico is that the island is located on the hurricane alley. After hurricane Irma and Maria, how well have you recovered, what lessons have you learned and what changes have you implemented to ensure the continuity of your production?

Even though the facilities manufacture different products, we have similar equipment on the two sites which has been validated by our customers. The design departments also have the same capabilities. Thanks to this redundancy, we are better prepared for an adverse event like Hurricane Maria. Moreover, we always increase our inventory during the hurricane season as a safety precaution. While the hurricane might not hit Puerto Rico, it might land in Florida from where our

supplies and raw materials are imported, and cause disruptions in ocean and air transit. In addition, despite losing power for a month and half, we were able to cover our electricity needs with our generators, as well as our water needs thanks to water tanks.

Although we were operational two days later, we still decided to stop operations for five days after Maria to support our people as they needed to attend to their own needs. Our customers were unfortunately not as lucky as us, and many had to stop operations for weeks.

During the recovery, we put all our employees on the first shift because we did not want people out in the middle of the night. The volume was extremely low as pharmaceutical companies needed to follow stringent protocols to restart operations. Moreover, a lot of our customers needed our help to replace the products we had supplied as they were damaged by water.

We learned a lot from the event. The main issue on the island was the lack of phone or internet communication. Since then, we have added satellite communication capabilities, and redundancy on internet service and other IT infrastructure. To revise our business continuity plan, we hired consultants and constantly asked ourselves “What if something happens?”. Although it never possible to be fully prepared for such as catastrophe, we feel confident in our ability to ensure a reliable supply for our customers.

Another challenge is the high cost of electricity. Many pharma manufacturers are investing in energy projects such as co-generation plants, not only to reduce their energy bill but also to reduce their dependence on the grid. Is Essentra doing the same?

The cost of energy on the island is a challenge. We also have a project to build solar panels on this building which will be able to cover a third of our energy needs. We are also looking into energy-efficient equipment and LED lighting. These investments will help us reduce our electricity costs, allowing us to remain price competitive. Essentra wants to be the best supplier, not only in terms of quality but also in terms of price.

Manufacturing in all sectors is undergoing a transformation and entering a new phase dubbed Industry 4.0 focused on interconnectivity, automation, machine learning, and real-time data. How advanced is Essentra on this journey to Industry 4.0?

Last year we invested close to 6 million dollars in this facility, including a brand-new press for 4 million dollars. The rest was invested on capabilities for business continuity. This year we are spending close to 3 million increasing our capacity on equipment. The new press is fully connected with our pre-press department and can show real-time data on productivity and waste on a particular product, helping us increase our productivity because we know what kind of products we need to work on. It is equipped with a vision system and an automatic rejection system. The vision system is calibrated to see all the cartons under the same conditions. It allows us to move from subjectivity in colour to a rigorous colour management system.

Moreover, globally Essentra is investing substantially on IT, replacing old equipment, and redesigning the intranet so that employees have better access to data. We have a department in a corporate office working on all the data management, not only sales but also forecasting and manufacturing data such as Overall Equipment Effectiveness (OEE), waste, on-time delivery and real-time productivity. With the click of a button, I can tell you that a machine is running this particular job, at this speed, with this many people, and the expected productivity and time to complete.

Further standardizing and automating our production line is complicated due to the high-mix low-volume production setup. However, there are some pilot projects going on in Europe.

As you mentioned, one of the reasons why Puerto Rico is an attractive manufacturing location is its qualified pool of talent. What are you doing to attract, develop and retain this talent?

After Hurricane Maria, many people moved out to the US mainland which has made it more difficult to find and attract talent. We are more focused on retaining and developing the talent we already have. As part of this effort, we want to provide them with more opportunities by integrating the two sites. Before, when an opportunity opened in Manatí, people in Guaynabo were not even aware of it, and vice versa. We are changing this mindset: we are a Puerto Rico operation with the same opportunities for everybody. We are also investing a lot in training and safety. We completely redesigned our human resources strategy to invest in our people. We have implemented a fair process on setting goals and tracking performance in a way where people feel comfortable, as well as open and honest monthly communication on where we are in terms of revenue and costs and where we have opportunities. We also encourage people to share their ideas, even the wildest ones on how to improve processes. We also created new structures for people to grow. For instance, we

created an engineering department with positions in process engineering and technical engineering, which is not common in the printing industry.

Since the price of raw materials increase every year, our strategy is to continuously improve productivity to keep prices low, and we are leveraging our people's creativity to achieve this goal.

What are the strategic priorities to continue growing as one of the leading providers of healthcare packaging solutions in Puerto Rico?

One priority is to keep investing in new technology to achieve better product quality and consistency, for which we have the commitment from the top management. Secondly, we are integrating our two facilities as we want customers to interact with one company, not two different sites. If a customer asks for information, he should have one point of contact and receive the same service level. We will continue strengthening our business continuity plan, and available capacity to support customers on rapid launches and reducing lead times.

You have been leading the operations of Essentra in Puerto Rico for the past two years but your background in the automotive component industry in Mexico. How have you leveraged your past experiences to drive results at Essentra?

Indeed, this is my first experience in a packaging industry. My past experiences have helped me a lot to improve processes at Essentra because the automotive industry is focused on continuous improvement and lean methodology which are not standard in the packaging industry.

Comparing Mexico to Puerto Rico, I would say that the Mexican management style is more aggressive. However, as in the pharma industry compliance is everything, keeping the balance is more important. Moreover, in Mexico, it is harder to find such high-skilled, competent and bilingual people.

The packaging products you manufacture are essential to put life-saving medicine on the market. How does this reality translate into your day-to-day operations?

Our customer's patient is our patient. Without packaging, you cannot go to market so if we cannot deliver on time, patients might not receive their medicine. This is the reason why we offer a start-to-end solution: commercial, design, manufacturing, delivery. We also need to establish the right

communication to understand what is critical for the customer and share it with employees. For instance, a company might use different colours on a label depending on the dosage. The product cannot just look like what the customer wants, it needs to be perfect. Another company might only have 24h to go through the packaging line or risk losing the product on-time delivery is critical. Moreover, some medicines are only manufactured in Puerto Rico which means that if we have a stock out, we are affecting the world market, so having available capacity is crucial.

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