

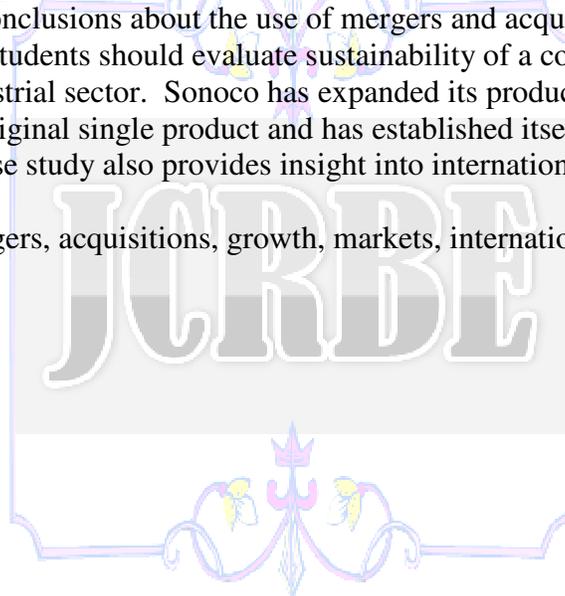
## **Sonoco Products Company: A case study of growth through mergers and acquisition**

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### **ABSTRACT**

This case study addresses the Sonoco Products Company, Inc., and reviews its growth from a small South Carolina-based company to a world leader in the manufacture of industrial, consumer, and protective packaging, along with providing packaging services. Sonoco is also a world leader in producing recycled paperboard using recovered paper from its own papermaking operations. This case study, while usable in the study of virtually any business discipline, is particularly focused on corporate growth attained through a series of mergers with and acquisitions of other companies. Students should analyze Sonoco's growth over the company's lifespan and then draw conclusions about the use of mergers and acquisitions as a corporate growth model. Further, students should evaluate sustainability of a corporation that has become a world leader in its industrial sector. Sonoco has expanded its product offerings and services far beyond the company's original single product and has established itself as a global corporation as a result; hence, this case study also provides insight into international business.

Keywords: finance, mergers, acquisitions, growth, markets, international



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## **SONOCO STRATEGIC VALUES**

“Sonoco intends to be the global leader in providing high quality, innovative, value-creating packaging solutions that satisfy the customer. The hallmarks of our culture are safety, customer satisfaction, growth and optimization, operational excellence, maximized cash flow and our people.” (Sonoco, 2014c)

## **CASE OBJECTIVES**

The purpose of this case study is to demonstrate how a company may grow through a series of mergers with and acquisitions of other companies, along with establishing corporate affiliations and creating new corporate subsidiaries. This case study presents a company that has attained a foremost leadership position in its industry on a global scale using this growth model.

## **INTRODUCTION**

The Sonoco Products Company, Inc. is a US-based, international manufacturer of industrial and consumer protective packaging. Sonoco also provides associated packaging services. This company started as a small business in rural South Carolina at the end of the 19<sup>th</sup> Century and since that time has grown to become one of the largest companies in the world in its area of products and services. Sonoco is also a leading producer of recycled paperboard using recovered paper from its own papermaking operations. Sonoco is currently South Carolina’s largest company. Sonoco is a publicly traded corporation whose common stock is currently traded under the ticker symbol SON on the New York Stock Exchange (NYSE).

Along with its subsidiaries and affiliates, Sonoco conducts operations in 335 global operating locations in the United States, Australia, Belgium, Brazil, Canada, Chile, China, Colombia, England, France, Germany, Greece, India, Indonesia, Italy, Japan, Korea, Malaysia, Mexico, the Netherlands, New Zealand, Northern Ireland, Norway, Poland, Puerto Rico, Scotland, Singapore, Spain, Switzerland, Taiwan, Thailand, Turkey, and Venezuela. Worldwide Sonoco employs approximately 19,900 people.

Sonoco products are used exclusively by industry, including the textiles, food processing, powdered beverage and snack, personal care, papermaking, materials converting and handling, agriculture, and many other industries requiring product packaging, display, and associated support.

## **HISTORY**

On May 10, 1899, the Southern Novelty Company opened for business as a publically-traded corporation in the small farming town of Hartsville, South Carolina. Their sole product was a paper cone used for the storage of yarn made from a mainstay agricultural product of the region, cotton. Sonoco’s novel paper cone gradually replaced the more expensive wooden cones that had been exclusively used in the textile industry up to that point. Over time this paper cone became the standard for storing cotton yarn (Doubles, 2005).

The Southern Novelty Company was founded by Major James Lide Coker, a Confederate veteran of the American Civil War. During the war Major Coker was severely wounded in battle

in Tennessee and returned home to Hartsville, South Carolina to recover. After the war Major Coker entered a series of businesses, some successful and some not (Doubles, 2005).

In 1884 Major Coker's second child and oldest son, James Lide Coker, Jr. attended the Stevens Institute of Technology in Hoboken, New Jersey. His senior thesis was "The Sulphite Process of Manufacture of Cellulose for Paper Making," which was concerned with the making of paper pulp. In his thesis James investigated the use of the abundant Southern shortleaf pine trees native to South Carolina for producing paper pulp, which at that time was a rather novel idea. James attempted to sell his idea to the pulp companies of the day, but found that most of them weren't all that interested in his idea. Not one to be defeated, upon his return to Hartsville James proposed the idea to his father, the Major. The Major quickly saw potential in the idea and, after some time and great effort, founded the Carolina Fiber Company in 1890 to produce wood pulp and manufacture paper. This was the first time pine trees native to South Carolina had been used successfully in the production of paper (Doubles, 2005).

Despite the great innovation and reduced paper production costs that this new paper-making technology afforded them, the Coker family began to struggle financially and the success of the Carolina Fiber Company was in doubt for several years after its founding. What was missing was a demand for their paper. A major contributing factor to this increasingly desperate situation was that Hartsville was a small South Carolina backwater town that most people had never heard of, especially those in the north of the country where many of the industrial users paper were located. In his pursuit of possible users of the company's products, the Major discovered that the cones the cotton yarn was spun on could be made out of paper, instead of the more expensive wood that these cones were traditionally made of. The cotton industry was and had been a dominant Southern industry; hence, provided a regional potential customer base for his paper products. However, what was needed was a new company to produce these paper cones and, in the process, provide a demand for the Carolina Fiber Company's paper. Hence, the Major founded a second company, the Southern Novelty Company, to produce the paper cones and later paper tubes, which in turn served as a primary customer for the Carolina Fiber Company (Doubles, 2005).

In 1917, with its declaration of war against the Central Powers (Germany, Austria-Hungary, and Ottoman Empire), the United States officially became involved in World War I (WWI). Unlike many other companies during the war whose businesses were greatly impacted by the loss of working-age young males who had been drafted into military service, and by the Garfield Order which significantly limited energy usage throughout the country, the Southern Novelty Company prospered and grew. A primary reason for this was that the company was a subcontractor on several US government contracts; hence, was not subject to the limitations prescribed by the Garfield Order. This afforded the company a major competitive advantage over any competitors who were not likewise involved in government business (Doubles, 2005).

During WWI and, then in the immediate post-war years, many of the nation's textile industries began to migrate to the South. This resulted in pronounced growth in the regional textile industry, which in turn led to a significant rise in the demand for the Southern Novelty Company's paper cones and tubes. The company enjoyed a few great growth years from this expansion of the regional textile industry. However, all of that was about to change due to the company's overdependence on the textile industry (Doubles, 2005).

In 1920 a boll weevil infestation decimated the cotton fields of the agrarian South, which in turn led to a collapse of the cotton market. Not surprisingly textile industry's demand for paper cones and tubes plummeted, which in turn should have resulted in severe financial distress

for the Southern Novelty Company. In spite of this setback the Southern Novelty Company endured and by 1923 was not only surviving, but actually growing. During this same year the company went international for the first time by establishing a joint venture with Fred and Arthur Lowery in England to produce paper cones and tubes. Also in that year the company changed its name, using the first two letters of each word in the company's name, the Southern Novelty Company, to its current name, Sonoco (Doubles, 2005).

Despite the financial challenges presented by the boll weevil infestation and resulting collapse in the cotton market, Sonoco achieved sales of \$908,000 by the end of 1920. During the 1920s Sonoco purchased the patent rights for the Cone Winding Mandrel, which markedly improved the company's production efficiency. The company also acquired the Economy Cone and Tube Company, North Carolina, Paper Products Company, Georgia, and Forney Fiber Company, New Jersey. These acquisitions not only afforded Sonoco additional production capabilities and access to well-established markets, but the company also gained critical production technologies and processes, along with significant technical expertise (Doubles, 2005).

By 1930 Sonoco's sales had risen to \$1,598,000. This was at a time many businesses were failing due to the onset of the Great Depression in the United States. The situation became especially problematic for the cotton industry with the simultaneous onset of the Dust Bowl. The Dust Bowl ravaged many farms across the country, particularly along the east coast and in the Midwest. And, as if things were not bad enough, the boll weevil was still a persistent problem (Doubles, 2005).

Although during the Great Depression many businesses were closing their doors, the volatility and changes to the economy brought about by this economic malaise also at the same time spawned numerous opportunities. Sonoco's management was keen to this and acted accordingly. In 1933 Sonoco began subsidiary operations in Canada. In 1937 the company's New Jersey operation merged with the Climax Tube Company, also located in New Jersey. Sonoco expanded its Hartsville headquarters and production facilities during these years as well. In that same year the company announced a two-for-one stock split. By 1940 sales had risen to \$5,000,000 and in 1941 the Carolina Fiber Company merged with Sonoco. The intent of the merger was a simple consolidation of the businesses into a single business entity, thereby increasing efficiency and reducing overhead costs. It was during these years Sonoco began recycling used paper by repulping it and producing new paper from it. This marked the start of Sonoco becoming a world leader in paper recycling (Doubles, 2005).

During Sonoco's first 40 years, it had evolved from an initial investment of \$6,000 and around 24 workers at its home facility in Hartsville, South Carolina, to 1,500 workers in Hartsville and five branch plants in the US, one foreign subsidiary in Canada, one foreign affiliate in England, and foreign representatives in Mexico, Australia, and Brazil. The company had amassed over \$4,150,000 in assets during these years (Doubles, 2005).

With the onset of World War II (WWII) Sonoco again found itself involved in government contracts. This time the company produced specialized paper products, such as containers for packaging and shipping military ordinance. Sonoco was the first industrial company in South Carolina to be awarded the National Security Award for its efforts in the defense arena (Doubles, 2005).

As during WWI, WWII saw many of Sonoco's employees enlisted into the military and shipped overseas to war zones. This drain of manpower necessitated changes in the structure of Sonoco's workforce. To fill the voids left by their male employees Sonoco, like many

companies across the nation during those years, began hiring more women (as portrayed by the “Rosie the Riveter” icon of the war years). In February, 1943 there were 585 women employees at the Hartville facility. By May of that same year the number of women employed had grown to 800 and in September the company had over 1,000 women employees (Doubles, 2005).

The demand for metal in producing the weapons of war led to many traditional metal-based products being replaced with suitable substitutes made using other, less strategically important materials. Sonoco, ever vigilant of business opportunities, seized the moment and created a new department to produce paper cans for many commercial and industrial products traditionally packaged in metal containers, for companies such as the Colgate Palmolive Peet Company (Doubles, 2005).

Sonoco experienced explosive growth during the war and post-war years. Sales in 1942 were \$8,177,000, up significantly from the \$5,000,000 of just two years before. Sonoco’s growth rate was not only in sales revenue and quantity of sales, but also in the products they produced. Up until the US involvement in World War II, Sonoco’s customer base had remained the textile industry. And while Sonoco’s sales to the textile industry remained fairly constant, their new product lines led to ever faster company growth. This had the additional benefit of greatly reducing the company’s dependency on the textile market (Doubles, 2005).

An example of one of Sonoco’s new products was the SONOTUBE<sup>®</sup> fiber form used to form bridge columns across waterways and other construction needs. Another product was SONOAIRDUCT,<sup>®</sup> which was a fireproof duct used in the heating of slab-based buildings. During these years Sonoco, either independently or in joint ventures, entered the food-packaging business. The company greatly expanded their product range with an array of new products, such as firework casings and foam-based plastic products, and in doing so ended their exclusive dependency on the textile market (Doubles, 2005).

In 1945 Sonoco purchased a production facility in Quebec and in doing so gained access to the French Canadian market. During that year the company also began construction of a plant in Sao Paulo, Brazil. In 1948 Sonoco established new plants in Massachusetts and New Jersey. By 1950 Sonoco’s sales had grown to \$18,900,000. Also in 1948 Sonoco created a new subsidiary firm in Mexico, Sonoco de Mexico, S.A. and acquired the Champion Paper Company in Philadelphia, Pennsylvania. In 1952 Sonoco announced a two-for-one stock split, which was evidence of its rapid growth. In that same year Sonoco acquired the Gates Paper Company in Los Angeles, California. Sales in 1952 skyrocketed to \$21,215,000 and in 1953 sales rose further still to \$23,480,000. In 1955 a tube manufacturing facility was opened in Longview, Texas, and another in Freemont, California, which was later moved to Hayward, California (Doubles, 2005).

In 1961 James Lide Coker, III, died and his brother, Charles W. Coker, took the reigns as president. By this point Sonoco had grown so much and so quickly, that effective management of the company had now become problematic. Hence, in 1963 Charles restructured Sonoco by decentralizing control and establishing area managers for branch operations in the New England, Mid-Atlantic, and Midwestern divisions. The Pacific Coast operations were already under separate division management.

Company growth continued at an accelerated rate with 1962 sales coming in at \$48,152,000 and 1963 sales at \$52,689,000. In 1964 Sonoco began an affiliation with the Showa Products Company in Japan, bought a paper machine Rockton, Illinois, and in 1968 acquired the Downing Paper Company in Pennsylvania. From 1961 to 1969 Sonoco establish new operations facilities in the following order: Ohio, Quebec, Ontario, Washington, Wisconsin, Florida,

Louisiana, Missouri, New York, Tennessee, Kentucky, and South Carolina. In 1965 Sonoco announced another two-for-one stock split (Doubles, 2005).

In 1963 Sonoco's common stock began being traded as a NASDAQ-listed stock. The stock was listed under the ticker symbol SONO (Doubles, 2005).

By 1969 Sonoco had grown to 29 branch plants in 26 locations, with subsidiaries and affiliates on every continent except Antarctica. Sales in 1969 had more than tripled from the 1960 value of \$38,200,000 to \$124,270,000 (Doubles, 2005).

If in the almost 30-year period from the beginning of World War II to 1969 Sonoco had realized explosive growth, the next 30 or so years' growth was exponential. In 1970 Charles W. Coker turned the reigns of the company over to his son, Charles W. "Charlie" Coker. As Sonoco's new president, Charlie oversaw immediate growth results. Sales in 1972 grew to \$154,821,000 and just one year later in 1973 sales came in at \$188,559,000. During the 1970s much happened that could have adversely impacted the company. This included such events as the drawdown of US military forces in the later- and post-Vietnam era, with the resulting decline in government spending on textiles and paper products, the relegation of the US dollar as a purely fiat currency in 1971, the 1973 OPEC embargo leading to major increases in the price of energy, and during the latter half of the decade an economy that plunged into a major recession simultaneously with pronounced inflation (i.e., stagflation). As if that wasn't enough, the domestic textile industry began to decline with the advent of less-expensive foreign imports flooding the market, along with cheaper and readily-available, less-costly foreign labor for US-based companies. This led to a marked reduction in the domestic textile industry's demand for Sonoco's products. Yet, in the midst of what should have been very lean years for Sonoco, the company prospered and grew (Doubles, 2005).

In 1981 Sonoco entered the esteemed realm of the Fortune 500 by having the 457<sup>th</sup> highest sales in the nation. By 1983 the company moved up to 383<sup>rd</sup>, in 1985 to 368<sup>th</sup>, in 1986 to 347<sup>th</sup>, and in 1988 they moved to the 240<sup>th</sup> position. By 1990 Sonoco's position receded slightly to 244<sup>th</sup>. Then, in the immediate post-Cold War years, during a period of extremely rapid growth for most business sectors, the company fell out of the top 500 in sales. Nonetheless, Sonoco continued to grow (Doubles, 2005).

By 1981 Sonoco was now operating over 70 plants, worldwide. During that year the company had more than 8,000 employees and this grew to 15,000 by 1990. Roughly two-thirds of these employees were in the US. Sonoco achieved the \$1 billion in sales mark in 1987 and by 1994 sales had nearly doubled to \$2.3 billion. After that sales growth leveled off with sales in 2002 coming in at \$2.8 billion (Doubles, 2005).

Early on Sonoco made several moves to solidify its supply of raw materials by acquiring lumber companies such as the Cox Lumber Company in Darlington, South Carolina as a supplier of pulp wood and the Gaston Paper Stock Company Paper Stock Dealers in Statesville, North Carolina who collected and processed waste paper at locations throughout the Carolinas. By 1972 Sonoco had become one of the top five waste paper recyclers in the US and in 2001 Sonoco had 51 waste paper collection points around the world (Doubles, 2005).

Sonoco further reduced its vulnerability of relying on the textile industry by increasing the diversity of its product line. In 1980 the company acquired Baker Industries of Hartselle, Alabama as a subsidiary company. Baker produced wood, steel, plywood, and plastic reels for wire and cable storage. Sonoco expanded this operation so that by 2000 the company had seven plants and 29 warehouses. Also in 1980 Sonoco entered the plastic grocery bag business and by

1985 the company's plastic bags represented around 65-percent of the grocery bags used in US supermarkets (Doubles, 2005).

In 1982 Sonoco's subsidiary in the United Kingdom (UK) acquired a 59-percent interest in Capseals Limited, a holding company for paper packaging and wood products. In April, 1985 Sonoco acquired US-based Continental Fibre Drum, Inc. Sonoco's subsequent production of composite cans made it a major player in the consumer products industry, having such notable clients as the Kellogg Company, Keebler Foods, PepsiCo, The Quaker Oats Company, General Mills, Pillsbury, Proctor & Gamble, The Coca Cola Company, Mead Johnson, Nabisco, Planters, and scores of others (Doubles, 2005).

In 1988 Sonoco purchased the tube and core operations of Pak Pacific, Ltd., of Australia, purchased Gunther, S.A., in France, and completed its Packing Development Center in Hartsville. Later, in 1993, Sonoco acquired New York-based Crellin Holdings, Inc. This company was an international company specializing in injection molded products. Also during that year Sonoco merged with Atlanta, Georgia-based Engraph, Inc. Engraph was an industrial and consumer packaging company (Doubles, 2005).

In 1995 Sonoco reached the pinnacle of the stock exchanges when it became listed on the NYSE under the ticker symbol SON. The company also issued a 5-percent stock dividend in that same year (Doubles, 2005, Sonoco, 1996).

In addition to the mergers and acquisitions of other companies, Sonoco also expanded their operations through new initiatives developed within the company itself. For example, in 1996 Sonoco began packaging operations for Gillette's razors and blades. But the corporate growth strategy of mergers, acquisitions, and establishing joint ventures was still the name of the game for Sonoco's management. In 1997 Sonoco purchased Corepak, LTD, in the UK and entered a joint venture with ForPlas in Brazil (Doubles, 2005, Sonoco, 1997).

Sonoco's growth as a producer of composite cans was in addition to its continued production of carriers for various products, such as paper, textiles, and other products. That persisted until 1998 when Sonoco entered a joint venture with Texpack in Miami, FL and subsequently handed off its production of paper cones to that firm. Sonoco's production of tubes and rolls, however, continued to expand through the world. These tubes and rolls were now made of fiber, plastic, and composite materials (Doubles, 2005, Sonoco, 1999).

By 2002 sales had risen to \$2.8 billion. In 2003 the company had four acquisitions which included an engineered-carriers manufacturer in Australia, a recovered-paper operation in Savannah, Georgia, assets of a wood-reel manufacturer based in the US and Canada, and the Texas Reel Company's plywood-reel operations in Sherman, Texas. In 2004 Sonoco accomplished nine acquisitions including US-based CorrFlex, a composite-can manufacturer in Australia, a manufacturer of rotogravure-cylinders in Canada, and the remaining ownership interest in the manufacture of rotogravure-cylinders in Charlotte, NC. Sonoco also acquired additional tube and core manufacturing operations in Australia, China, and the US. In 2005 three acquisitions were completed in the US, New Zealand, and Chile (Doubles, 2005, Sonoco, 2003, 2005, 2006).

In 2006 Sonoco made six acquisitions and four acquisitions in 2007. Notable among the 2007 acquisitions was Matrix Packaging, Inc., a leading manufacturer of custom-designed, blow-molded, rigid-plastic containers with operations in both the US and Canada. In 2008 Sonoco completed two acquisitions, Amtex Packaging, Inc. in the US and Voidform International, Ltd., a Canadian-based business. In 2009 the company made one acquisition, Utah-based EconoReel Corporation (Sonoco, 2007, 2008, 2009, 2010).

The next year, 2010, saw Sonoco making four acquisitions. The acquisitions were Associated Packaging Technologies, Inc., Madem Reels USA, Inc., and small tube and core businesses in Canada and Greece. The company made five acquisitions during 2011. Most notable among these was the Illinois-based Tegrant Holding Company which operated more than 30 manufacturing, design, and testing operations in the US, Mexico, and Ireland. Also during 2011, Sonoco acquired businesses in Australia, New Zealand, and Greenville, South Carolina (Sonoco, 2011, 2012).

Finally, in 2013 Sonoco completed three acquisitions, Imagelinx, an artwork management business in the UK, a small tube and core company in Australia, and a recycling broker in the US (Sonoco, 2014a).

Sonoco has grown to a company providing industrial and consumer products and packing services in 335 locations around the world. Today, the company operates in four segments: Consumer Packaging, Paper and Industrial Converted Products, Display and Packaging, and Protective Solutions. The Consumer Packaging Operations consist of 79 plants throughout the world. The Paper and Industrial Converted Products segment serves markets through 220 plants on five continents. The Display and Packaging segment provides products and services such as primary package filling, custom packaging, paperboard specialties, point-of-purchase displays, fulfillment, and supply-chain management. The Protective Solutions segment provides products and services that are engineered, provide custom-designed protective measures and temperature-assurance, and can develop security packing solutions (Sonoco, 2014a, 2014b).

## **PRODUCTS, SERVICES, AND MARKETS**

### **Consumer Packaging**

During 2013 the Consumer Packing segment, with 77 plants throughout the world, accounted for 39 percent of Sonoco's net sales revenue. The products and services of this segment consist of shaped rigid paperboard containers; rotogravure-cylinder engraving; round composite cans; fiber caulk/adhesive tubes; printed flexible packaging; steel and peelable membrane easy-open closures for composite and metal cans; aluminum, plastic bottles, jars, jugs, cups, and trays; and global brand management. The markets this segment serves are coffee; frozen concentrate, powdered and liquid beverages; non-carbonated, ready to-drink products; powdered infant formula; crackers, hard-baked goods, cookies, desserts, gum, candy, nuts, and other similar snacks; refrigerated dough and frozen entrees; dairy, vegetables, fruit, seafood, poultry, soup, pasta, sauces, dips, and processed food; fresh-cut produce; pet food; home and personal care; and adhesives (Sonoco, 2014a).

### **Paper and Industrial Converted Products**

The Paper and Industrial Converted Products segment accounted for approximately 38 percent of the company's net sales revenues during 2013. This segment consists of 192 plants on five continents. Sonoco's paper operations provide the primary raw material for the Company's fiber-based packaging. Sonoco uses roughly 56-percent of the paper it manufactures in its operations, while the remainder is sold to other companies. Products in this segment include paperboard tubes and cores, molded plugs, reels; recycled paperboard, boxboard, linerboard,

chipboard, tubeboard, lightweight corestock, and corrugating medium. Services include the collection, processing, and recycling of paper, old corrugated containers, plastics, metal, glass, and other recyclable materials. The markets this segment serves are paper mills, shipping and storage, beverage insulators, tape and label, converted paperboard products, textiles, wire and cable, spiral winders, construction, film, flowable products, metal, residential, municipal, and customers' manufacturing and distribution facilities (Sonoco, 2014a).

### **Display and Packaging**

The Display and Packaging segment accounted for approximately 11-percent of Sonoco's net sales during 2013. Products and services in this segment consist of custom packaging, primary package filling, point-of-purchase displays, paperboard specialties, fulfillment, and supply chain management. The markets this segment serves are office supplies, beverages, candy, personal care, baby care, food, over-the-counter drugs, cosmetics, fragrances, hosiery, toys, home and garden, medical, hospitality industry, sporting goods, electronics, automotive, and advertising (Sonoco, 2014a).

### **Protective Solutions**

The Protective Solutions segment accounted for approximately 12 percent of the Company's net sales during 2013. Products and services in this segment include highly engineered, custom-designed protective, temperature-assurance, and retail security packaging solutions. The markets this segment serves in are medical devices, temperature-sensitive pharmaceuticals and food, heating and air conditioning, office furnishings, fitness equipment, consumer electronics, appliances, automotive, and promotional and palletized distribution (Sonoco, 2014a).

## **OPERATIONS**

### **Product Distribution**

Each of the Sonoco's operating units has its own sales staff and maintains direct sales relationships with its customers; however, in cases where customers buy from more than one business unit, Sonoco will assign a single representative or team of specialists to work with that customer. Usually the distribution of products is conducted directly from the manufacturing plant to the customer, but when appropriate, the product will be shipped directly to the customer from a mutually advantageous location (Sonoco, 2014a).

### **Raw Materials**

Sonoco purchases its raw materials from several outside sources, consisting primarily of recovered paper, paperboard, plastic resins, aluminum, and steel (Sonoco, 2014a).

### **Patents, Trademarks and Related Contracts**

Sonoco owns many patents on inventions, products, and process innovations, including those granted in the US and in foreign countries (Sonoco, 2014a).

### **Risk Factors**

Sonoco identified the following risk factors in their 2013 annual report. The company feels these factors could adversely affect their business, consolidated financial condition, or the market price of their stock (Sonoco, 2014a):

- “Challenging current and future global economic conditions have had, and may continue to have, a negative impact on Sonoco’s business operations and financial results.”
- “Sonoco’s international operations subject the company to various risks that could adversely affect business operations and financial results.”
- “Raw materials, energy, and other price increases or shortages may reduce the company’s net income.”
- “Sonoco may not be able to identify suitable acquisition candidates, which could limit the company’s potential for growth.”
- “Sonoco may encounter difficulties in integrating acquisitions, which could have an adverse impact on the company’s financial condition and operating results.”
- “Sonoco may encounter difficulties restructuring operations or closing or disposing of facilities.”
- “Sonoco faces intense competition and failure to compete effectively can have an adverse effect on the company’s operating results.”
- “Sonoco is subject to costs and liabilities related to environmental, health and safety, and corporate social responsibility laws and regulations that could adversely affect operating results.”
- “Changes in pension plan assets or liabilities may reduce operating results and shareholders’ equity.”
- “Sonoco may not be able to develop new products acceptable to the market.”
- “Sonoco, or the company’s customers, may not be able to obtain necessary credit or, if so, on reasonable terms.”
- “Sonoco’s indebtedness could adversely affect the company’s cash flow, increase its vulnerability to economic conditions, and limit or restrict its business activities.”
- “Currency exchange rate fluctuations may reduce operating results and shareholders’ equity.”
- “Sonoco relies on information technology and its failure or disruption could disrupt the company’s operations, compromise customer, employee, vendor and other company data, and adversely affect its results of operations.”
- “Sonoco has a significant amount of goodwill and other intangible assets and a write down would negatively impact operating results and shareholders’ equity.”
- “Sonoco’s ability to attract, develop, and retain talented executives, managers, and employees is critical to the company’s success.”
- “Full realization of Sonoco’s deferred tax assets may be affected by a number of factors.”

- “Sonoco’s annual effective tax rate and the amount of taxes the company pays can change materially as a result of changes in US and foreign tax laws, changes in the mix of the company’s US and foreign earnings, adjustments to the company’s estimates for the potential outcome of any uncertain tax issues, and audits by federal, state, and foreign tax authorities.”
- “The loss of a key customer, or a reduction in its production requirements could have a significant adverse impact on Sonoco’s sales and profitability.”
- “Continuing consolidation of Sonoco’s customer base and suppliers may intensify pricing pressure.”
- Challenges to, or the loss of, our intellectual property rights could have an adverse impact on Sonoco’s ability to compete effectively.
- “Material disruptions in Sonoco’s business operations could negatively affect the company’s financial results.”

## **THE COMPETITORS**

Sonoco sells its products in highly competitive markets. These markets include the paper, textile, packaging, film, food, chemical, construction, and wire and cable product markets. All of these markets are defined by supply and demand (Sonoco, 2014a).

Sonoco’s key competitors in the packaging and containers industry are the Bemis Company, Caraustar Industries, and the RockTenn Company. Table 1 (Appendix) provides a brief comparison of selected financial data and statistics for Sonoco and these direct competitors (Yahoo Finance, 2014d).

### **Bemis Company, Inc.**

Bemis Company, Inc. is a NYSE-listed corporation that manufactures and sells packaging products and pressure sensitive materials in North America, Latin America, Europe, and the Asia-Pacific. The company operates in three segments: U.S. Packaging, Global Packaging, and Pressure Sensitive Materials (Yahoo Finance, 2014a).

### **Caraustar Industries**

Caraustar Industries is a privately held company that makes 100-percent recycled paperboard and converted paperboard products for end-use markets such as gypsum facing paper, folding cartons, tubes and cores, and specialty products. The company’s business groups include Consumer Packaging, Industrial Packaging, Recovered Fiber, and Mill (Yahoo Finance, 2014b).

### **RockTenn Company, Inc.**

The RockTenn Company is a NYSE-listed corporation that manufactures and sells consumer packaging and corrugated products. The company conducts business in Argentina, Canada, Chile, China, Mexico, Puerto Rico, and the US. RockTenn operates in three segments: Consumer Packaging, Corrugated Packaging, and Recycling (Yahoo Finance, 2014c).

## FINANCES

### Market Equity for Registrant's Common Equity

Since its inception in 1899 Sonoco has been a publically traded company. The company's common stock was originally traded in private exchanges (e.g., banks) as over-the-counter securities. Sonoco became a NASDAQ-listed stock in 1963 under the ticker symbol SONO. On March 8, 1995, the company's stock was listed with the NYSE under the stock symbol "SON." Sonoco's common stock has been traded on the NYSE since that time. As of December 31, 2013, there were approximately 63,600 shareholder accounts (Doubles, 2005, Schrum, 2014).

Table 2 in the Appendix is from Sonoco's 2013 10-K filing. It indicates the high and low sales prices of Sonoco's common stock for each full quarterly period over the last two years (2012, 2013) as reported on the New York Stock Exchange, as well as cash dividends declared per common share (Sonoco, 2014a).

### Selected Financial Data

Tables 3, 4, and 5 are from Sonoco's 2013 10-K filing. These tables present the company's balance sheets (2012, 2013), income statements (2011, 2012, 2013), and cash flow statements (2011, 2012, 2013). (Appendix, Tables 2, 3, & 5).

## DISCUSSION QUESTIONS

1. Perform a brief SWOT analysis.
2. Do serial mergers and acquisition constitute a viable growth model for a company? Is it an ethical model? Are there specific risks inherent to such a growth model? What are the advantages?
3. In light of the changing international and domestic economic dynamics, how does a company such as Sonoco maintain its leadership position in its industry?
4. Is there room left for Sonoco to grow?
5. Should Sonoco seek to either acquire or merge with any of its major competitors?
6. Should Sonoco expand its products and services?
7. Should Sonoco divest itself of segments or division that are marginally profitable or may become obsolescent?
8. Should Sonoco seek to establish markets in additional nations?
9. Should Sonoco seek to leave nations where either political problems, economic downturns, or other troubles may be evolving?
10. How do Sonoco's finances appear at present? Strong? Vulnerable?

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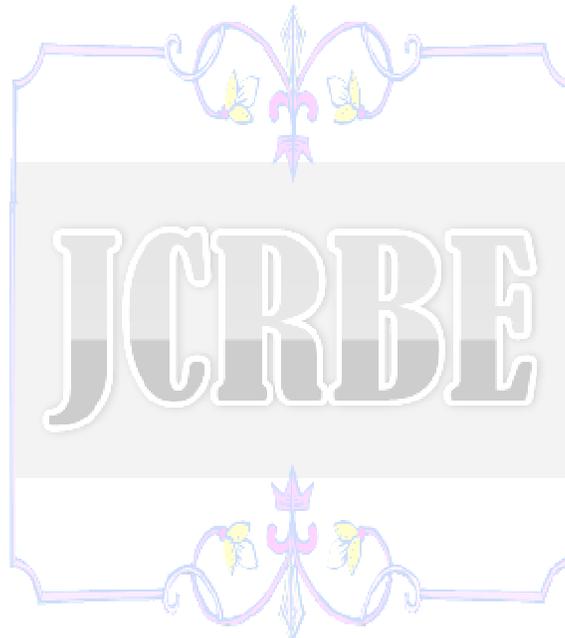
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## APPENDIX

TABLE 1

Direct Competitors Comparison (July 1, 2014) (Source: Yahoo.com)

	<u>SON</u>	<u>BMS</u>	<u>PVT1</u>	<u>RKT</u>	<u>Industry</u>
<b>Market Cap:</b>	4.55B	4.13B	N/A	7.56B	557.68M
<b>Employees:</b>	19,900	19,106	N/A	25,800	3.51K
<b>Qtrly Rev Growth (yoy):</b>	0.01	-0.01	N/A	0.03	0.08
<b>Revenue (ttm):</b>	4.85B	5.01B	N/A	9.69B	1.16B
<b>Gross Margin (ttm):</b>	0.18	0.19	N/A	0.20	0.25
<b>EBITDA (ttm):</b>	587.28M	618.10M	N/A	1.49B	135.60M
<b>Operating Margin (ttm):</b>	0.08	0.09	N/A	0.10	0.07
<b>Net Income (ttm):</b>	223.28M	212.30M	N/A	509.00M	N/A
<b>EPS (ttm):</b>	2.15	2.05	N/A	6.95	0.98
<b>P/E (ttm):</b>	20.72	19.96	N/A	15.36	16.11
<b>PEG (5 yr expected):</b>	3.07	2.50	N/A	1.30	1.49
<b>P/S (ttm):</b>	0.92	0.82	N/A	0.77	0.68

BMS = Bemis Company, Inc. (NYSE)

PVT1 = Caraustar Industries, Inc. (privately held)

RKT = Rock-Tenn Company (NYSE)

Industry = Packaging &amp; Containers Industry

TABLE 2

Market for registrant's common equity, related stockholder matters and issuer purchases of equity securities (Source: Sonoco 2013 10-K, 2014)

	High	Low	Cash Dividends
<b>2013</b>			
First Quarter	\$35.05	\$29.75	\$0.30
Second Quarter	\$35.93	\$32.03	\$0.31
Third Quarter	\$39.80	\$34.65	\$0.31
Fourth Quarter	\$41.82	\$37.85	\$0.31
<b>2012</b>			
First Quarter	\$34.83	\$31.02	\$0.29
Second Quarter	\$33.91	\$29.57	\$0.30
Third Quarter	\$31.67	\$28.61	\$0.30
Fourth Quarter	\$32.51	\$29.00	\$0.30

**TABLE 3****Consolidated Balance Sheets 2012 & 2013** (Source: Sonoco 2013 Form 10-K, 2014)

## Sonoco Products Company

(Dollars and shares in thousands)

At December 31,	2013	2012
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 217,567	\$ 373,084
Trade accounts receivable, (net of allowances of \$9,771 in 2013 and \$7,252 in 2012)	614,053	619,761
Other receivables	38,995	36,311
Inventories		
Finished and in process	158,256	159,193
Materials and supplies	252,531	224,079
Prepaid expenses	57,666	65,395
Deferred income taxes	39,406	22,073
	1,378,474	1,499,896
Property, Plant and Equipment, Net	1,021,920	1,034,906
Goodwill	1,099,207	1,110,505
Other Intangible Assets, Net	243,920	276,809
Long-term Deferred Income Taxes	67,364	90,936
Other Assets	168,406	163,013
<b>Total Assets</b>	<b>\$3,979,291</b>	<b>\$4,176,065</b>
<b>Liabilities and Equity</b>		
Current Liabilities		
Payable to suppliers	\$ 491,809	\$ 426,786
Accrued expenses and other	261,895	281,532
Accrued wages and other compensation	69,671	56,004
Notes payable and current portion of long-term debt	35,201	273,608
Accrued taxes	8,649	6,305
	867,225	1,044,235
Long-term Debt	946,257	1,099,454
Pension and Other Postretirement Benefits	263,718	461,881
Deferred Income Taxes	128,006	15,649
Other Liabilities	48,760	51,632
Commitments and Contingencies		
Sonoco Shareholders' Equity		
Serial preferred stock, no par value		
Authorized 30,000 shares		
0 shares issued and outstanding as of December 31, 2013 and 2012		
Common shares, no par value		
Authorized 300,000 shares		
102,147 and 100,847 shares issued and outstanding		
at December 31, 2013 and 2012, respectively	7,175	7,175
Capital in excess of stated value	457,190	445,492
Accumulated other comprehensive loss	(358,520)	(475,826)
Retained earnings	1,604,892	1,512,145
<b>Total Sonoco Shareholders' Equity</b>	<b>1,710,737</b>	<b>1,488,986</b>
Non-controlling Interests	14,588	14,228
<b>Total Equity</b>	<b>1,725,325</b>	<b>1,503,214</b>
<b>Total Liabilities and Equity</b>	<b>\$3,979,291</b>	<b>\$4,176,065</b>

See the Notes beginning on page F-6 in Sonoco's 10-K filing. They are an integral part of these financial statements.

**TABLE 4****Consolidated Statements of Income for 2011, 2012, and 2013**

(Source: Sonoco 2013 Form 10-K, 2014)

**Sonoco Products Company**

(Dollars and shares in thousands except per share data)

Years ended December 31,	2013	2012	2011
Net sales	\$4,848,092	\$4,786,129	\$4,498,932
Cost of sales	3,974,588	3,942,497	3,742,149
Gross profit	873,504	843,632	756,783
Selling, general and administrative expenses	487,171	463,715	397,477
Restructuring/Asset impairment charges	25,038	32,858	36,826
Income before interest and income taxes	361,295	347,059	322,480
Interest expense	59,913	64,114	41,832
Interest income	3,187	4,129	3,758
Income before income taxes	304,569	287,074	284,406
Provision for income taxes	96,203	103,759	78,423
Income before equity in earnings of affiliates	208,366	183,315	205,983
Equity in earnings of affiliates, net of tax	12,029	12,805	12,061
Net income	220,395	196,120	218,044
Net (income) attributable to non-controlling interests	(1,282)	(110)	(527)
Net income attributable to Sonoco	\$ 219,113	\$ 196,010	\$ 217,517
Weighted average common shares outstanding:			
Basic	102,577	101,804	101,071
Assuming exercise of awards	671	769	1,102
Diluted	103,248	102,573	102,173
Per common share			
Net income attributable to Sonoco:			
Basic	\$ 2.14	\$ 1.93	\$ 2.15
Diluted	\$ 2.12	\$ 1.91	\$ 2.13
Cash dividends	\$ 1.23	\$ 1.19	\$ 1.15

See the Notes beginning on page F-6 in Sonoco's 10-K filing. They are an integral part of these financial statements.

**TABLE 5****Consolidated Statements of Cash Flows** (Source: Sonoco 2013 Form 10-K, 2014)**Sonoco Products Company**

(Dollars in thousands)

Years ended December 31

	2013	2012	2011
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 220,395	\$ 196,120	\$ 218,044
Adjustments to reconcile net income to net cash provided by operating activities			
Asset impairment	8,238	8,427	12,518
Depreciation, depletion and amortization	197,671	200,403	179,871
Share-based compensation expense	11,472	8,851	12,102
Equity in earnings of affiliates	(12,029)	(12,805)	(12,061)
Cash dividends from affiliated companies	13,631	9,329	11,676
(Gain)/Loss on disposition of assets	(493)	(6,690)	1,907
Pension and postretirement plan expense	61,946	52,856	36,853
Pension and postretirement plan contributions	(42,007)	(75,059)	(142,097)
Tax effect of share-based compensation exercises	11,462	5,698	5,965
Excess tax benefit of share-based compensation	(12,456)	(2,682)	(4,018)
Net increase in deferred taxes	37,202	18,989	11,036
Change in assets and liabilities, net of effects from acquisitions, dispositions and foreign currency adjustments			
Trade accounts receivable	162	1,190	(52,484)
Inventories	(32,787)	16,157	3,423
Payable to suppliers	65,894	(16,010)	(13,798)
Prepaid expenses	(1,993)	1,114	(2,559)
Accrued expenses	(368)	(4,059)	(12,174)
Income taxes payable and other income tax items	7,093	(5,350)	7,344
Fox River environmental reserves	(1,848)	(2,796)	(1,959)
Other assets and liabilities	6,842	10,232	(14,314)
Net cash provided by operating activities	538,027	403,915	245,275
<b>Cash Flows from Investing Activities</b>			
Purchase of property, plant and equipment	(172,442)	(214,862)	(173,372)
Cost of acquisitions, net of cash acquired	(4,005)	(503)	(566,908)
Proceeds from the sale of assets	10,511	31,967	11,121
Investment in affiliates and other	(3,517)	26	—
Net cash used by investing activities	(169,453)	(183,372)	(729,159)
<b>Cash Flows from Financing Activities</b>			
Proceeds from issuance of debt	57,952	7,568	680,919
Principal repayment of debt	(294,347)	(46,820)	(17,054)
Net (decrease) increase in commercial paper borrowings	(152,000)	125,000	(3,000)
Net decrease in outstanding checks	(2,825)	(1,600)	(8,533)
Cash dividends – common	(124,845)	(119,771)	(114,958)
Excess tax benefit of share-based compensation	12,456	2,682	4,018
Purchase of non-controlling interest	—	—	(5,718)
Shares acquired	(27,239)	(4,167)	(49,442)
Shares issued	15,781	9,739	21,253
Net cash (used) provided by financing activities	(515,067)	(27,369)	507,485
Effects of Exchange Rate Changes on Cash	(9,024)	4,387	(6,327)
(Decrease) Increase in Cash and Cash Equivalents	(155,517)	197,561	17,274
Cash and cash equivalents at beginning of year	373,084	175,523	158,249
Cash and cash equivalents at end of year	\$ 217,567	\$ 373,084	\$ 175,523
<b>Supplemental Cash Flow Disclosures</b>			
Interest paid, net of amounts capitalized	\$ 60,772	\$ 66,171	\$ 34,296
Income taxes paid, net of refunds	\$ 40,446	\$ 84,422	\$ 54,078

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