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As a business, what do you do now?

By Paperitalo Staff

Last week, we talked about taking personal responsibility for your career. This week, let us put on our fiduciary responsibility hat and figure out what to do about your business. As an aside, I am going to talk about pricing strategy, but the manner in which I talk about it here should keep us out of collusive anti-trust dangers (I hope). After all, we as an industry have had enough problems with anti-trust behaviors.

What I will say here applies to anyone in the production chain--you may be a pulp or paper manufacturer, you may be a supplier to a mill, you may be a converter--makes no difference. These ideas will equally apply to all. The most important first matter is to know your cost structure. You will be surprised how many manufacturing enterprises either (a) don't really know their cost structure or (b) are dishonest with themselves about what their cost structure actually is. You have to know what is truly fixed and what is variable--people get these mixed up all the time. You have to know where the hidden costs are--I worked at a facility a long time ago where we had a half dozen or more sales people who worked out of small independent offices, each with an administrative assistant, a car and a fat expense report. They contributed nothing to the business (their function was to glad hand two or three customers each) and cost a bundle. You must know your costs and know where they land on the P & L and Balance Sheet.

You also must know your cash position. What really brings cash in the door and what brings in "paper profits" (no pun intended)? You may have some business that looks unprofitable but is a great cash generator. I am not saying you should keep it, but you need to understand the choices you will be making if it goes away.

Finally, you need to know the lingering shutdown costs of turning off each and every production unit in your facility. What costs (besides depreciation) go on no matter what and how long do they continue to exist? You may have a union contract that keeps people on the payroll for weeks after a certain process is shut down, for instance. Purchased electricity may not really drop in

total price due to your electrical contract. Some raw materials may drop drastically in price if you cut back your total consumption of them. And on so forth and so on.

Hopefully, you already know all these things, but if you don't, it is high time you learned them, for now comes the real management part. From my experience, the above are elementary but almost no one knows them--what they know is assumptions and conventional wisdom--not the real, current facts.

You need to look at each piece of business you have, each customer and each grade or product you sell each customer, and decide what business you want to keep when the current downturn is over. That is the business you want to keep now. Hint: do not immediately fall for the old adage that you keep the high volume, but low margin business with the idea it will cover fixed costs. I have seen this theory smashed to bits time and again (when people dig and really find their costs of production, fixed and variable, for each product). In fact, more often than not, you will find poor business (low margin) to be poor business at any time in the business cycle. Why keep it now? For every piece of business you ship out the door carries a hidden liability--the potential of backcharges that eat up even more of your overall profit.

When you have all of this sorted out, look at the business you want to keep. Get creative about how you can keep it and resist price reductions (we all know how easy it is to let prices collapse and how hard it is to restore them). For instance, can you offer more service and protect yourself from price collapse? Perhaps, as a suggestion, if you are taking downtime on a production unit, you can offer some of your senior people to work with your cherished customers in their facility for a while to learn more about how they use your products and (more) importantly help them, the customer, learn the tricks to optimizing the use of your products. This is "free" if the senior people you can offer would be on a paid layoff anyway. Perhaps your lab could do some lab work for your customers that they are now doing outside. This would give you more knowledge of how the customer uses your product and help them reduce costs. Such offers could possibly, hopefully, lead to more business from the choice customers you want to keep.

You just may be able to use the current climate to completely change the pricing paradigm with your customers. If I am advising someone on selling, I always tell them to try to obfuscate the pricing, offering real and perceived extra value while at the same time leaving the customer confused about what each unit is costing. If you can move your pricing in this direction and get the customer to focus on the bundled value they receive from you, the less they will be able to compare you to Joe's mill down the road that sells them generics by the ton. You will both be happy and you will have a leg up on the competition.

An example, not from our industry. The Hampton Inn in Perry, Florida, the last time I visited it, had won honors as the top Hampton Inn in the entire chain every year it had been in business. I found this out by talking to the owners. I discerned who the owners were by noticing who checked me into the hotel, and, then a few minutes later when I happened to look out my window, I saw the same fellow taking trash out to the dumpster. This led to me talking to him and he introducing me to his partner. Anyway, this Hampton Inn does all sorts of things to keep customers happy--chocolate covered strawberries, a full free bar in the evening and on and on. The owners laughed when they told about other franchise owners visiting them, looking around and leaving, saying, "What you are doing is too expensive." The owners said they have a nearly 100% occupancy rate--how can anything they are doing be too expensive? They get it--their peers don't. I want you to get it in your business, too. Most don't and most won't, even after reading this column.

Why not bundle in safety, too? Your people are used to handling your products and the precautionary issues that must be addressed with them. Offer to run your customers' safety meetings once in a while, at your expense.

Endear yourself to your customers and they will come back at your price, good times and bad.