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What's cheap, what's not

By Paperitalo Staff

Over the years, I have attended a number of marriage enrichment sessions, watched tapes on the subject of better marital relations, and read many books.

One idea that stuck with me all these years, directed at us men, went like this. When our wives go out and buy clothes or other personal items on a regular basis, we have a tendency to take each and every shopping occasion as an opportunity to make spendthrift accusations. However, when once every two years or so we buy a boat, motorcycle or the like, we do the sweet talking thing at the time of the purchase, and then make sure we don't bring it up again when the payment on said item is due each month. In reality, the boat, motorcycle, or other toy is really what is wrecking the family budget.

Thinking on this whole concept as it relates to business, I think the opposite is more destructive here.

We spend a great deal of time focusing on capital expenditures, and for the bigger ones we should. Likewise, for an agglomeration of smaller ones, we should. But, say for an individual expenditure of \$1 million with a real life of 30 years and a depreciated life of 15 years in a mill that makes 900 tons a day, this is a charge of around \$0.21 per ton for the first half of its life and free thereafter. Now a bunch of these adds up to real money, but if your business hinges on \$.21 per ton, you are in trouble. In other words, one \$1 million capital expenditure is cheap.

Contrast this to the consumable you purchase that, in the first year, cost you "only \$1" per ton. On these you get hooked like a drug addict. And price increases come along. And in ten years you are now spending \$2 per ton on something that no one even knows whether or not it is working, they just know it has been used for so long that no one dare try to change it. After 15 years, you may have spent \$5 or 6 million on something that slipped in the door as a trial idea.

Now, before all you suppliers write me and scream, please understand in parts of my own business I sell some items that may be considered capital goods and some that may be considered consumables, so perhaps I am stepping on my own toes when I bring this up. However, it is to

the benefit of us all that we make good purchasing decisions at all points in the business, for that can contribute to making healthy businesses. Spend wisely, which may not be the spending patterns you have followed in the past.

For safety this week, we northern hemisphere dwellers seem to be cutting back on heat this winter, due to the high costs of natural gas. Make sure you do not make a fatal mistake out of this decision by operating electric or un-vented heaters in an unsafe manner. We will talk next week. ##