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### ***Executing in 2013***

By Paperitalo Staff

So, you have awakened in the new year and are confronting the reality that the budget to which you committed a couple of months ago is now cast in stone. The bravado of October and November turns into the cold, hard fear of January (unless you are in the southern hemisphere, where it is an unbearable outbreak of sweat). Budgets are certainly necessary, but lack the concrete absoluteness we all desire.

Let's look at the income side first. Unless you enjoy a monopoly like Apple Computer, you really do not know the nuances of prices for the coming year. Currency exchange rates, government monetary policy and so forth are just one part of the equation you cannot control. So, OK, admit to me (but not your boss) that you really have no clue as to pricing for the coming year. You will have to keep an eye on it, and adjust what you can control (costs) to the best of your ability, but prices are about 10% within your control, 90% within the control of outside forces.

This is not to say, if you are really clever, you cannot have positive effects on pricing, but you will have to be really sharp. Look at airlines--who would have thought their business model would change so drastically that baggage fees would become a major portion of their income stream? Nevertheless, it has happened.

Another cost over which you have minor control is capital costs, depreciation and interest expense. Capital expenditures are often a joint and collaborative effort with headquarters. Depreciation schedules are at the whim of governments and can change many times in the life of an asset. Interest costs are largely controlled by governments (or at least markets) as well.

Daily production costs are the one place where you have a chance of having some influence. Some essential raw materials may have standard pricing, but if you are clever enough, you can negotiate deals favorable to your business. Energy is a similar situation. Labor--we must always try to reduce the cost of labor.

At the end of the day, however, the bottom line is what matters. Reacting fast enough to changing market conditions (volumes and pricing) by reducing costs quickly to keep the bottom line within the commitments in your budget is what it is all about.

It is interesting to me how two different business managers, making nearly the same products and selling into the same markets can have wildly different results. I have mentioned the word "clever" a couple of times above. Making budgets, the net profits committed in budgets that is, boils down to training, experience and cleverness. Being clever is a poorly defined concept, but if you can show me two facilities making nearly the same product and producing wildly different net incomes, I can certainly tell you, in retrospect, who is the more clever manager.

If the clever manager can keep this up for four or five years without a deterioration in maintenance (the place the dullards love to cut), I'll show you who should be the next CEO of your company.

Your New Year's resolution as suggested by yours truly: be the clever manager as described above. You will be doing everyone a favor.

For safety this week, don't be too clever. Clever coupled with safety is often foolish bravado. And that means risky behavior.

Be safe and we will talk next week. ##