Suppliers feel ripples from the recovery

Major suppliers are cautiously optimistic that they, too, will recover after several lean years.

JOHN C. EDWARDS

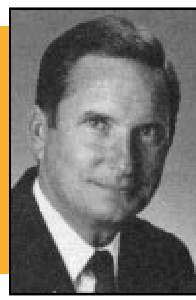
The paper industry has solid indicators that it is recovering after 4–5 years of depressed prices, oversupply, poor exchange rates, and global recession. Does this favorable outlook automatically translate to the major supplier companies? Because pulp and paper prices have firmed up, are the industry giants ready to open the tap and readily spend the capital funds that were in such short supply? We spoke with several executives from major supplier companies to find the answers to these and other related issues in today's dynamic market.

The following executives shared their views: Don Aiken, senior VP and general manager, ABB Industrial Systems Inc.; Michael J. Golasinski, senior VP, Pulp and Paper Division, Rust Engineering Co.; Mike Goodrich, president, BE&K, Inc.; Mark R. Hallenbeck, VP, Chemical Pulping Division, Sunds Defibrator Inc.; Werner E. Kade, president, Voith Sulzer Paper Technology; Carl C. Landegger, chairman, Black Clawson Co.; Jim Thompson, managing partner/CEO, Thompson Avant International; and Laurie D. Wicks, group VP, Beloit Corp.

Does the recovery translate to suppliers?

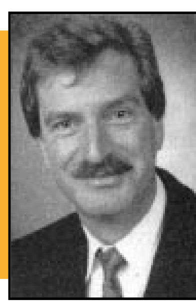
Recovery in the paper industry is slowly being felt by its supplier companies. Although there has been an improvement in the supply/demand picture with an associated price firmness, paper companies are being cautious in making capital expenditures, especially large ones. Suppliers are primarily seeing increased activity in quoting work and completing engineering studies. Although most suppliers point out that increased requests for quotation will most likely translate into firm business at some time, purchase orders for this work are slow to be released.

This reluctance to open the tap can be traced to two factors: the industry is taking a wait-and-see attitude in the short term to verify that the recovery is permanent, and most companies are expecting large expenditures in the longer term to comply with the Environmental Protection Agency's cluster rules. Most suppliers expect to see stronger business commitments by the middle of 1995.



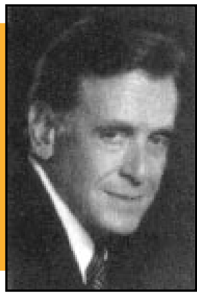
Michael J. Golasinski
Senior VP
Pulp and Paper Div., Rust Engineering Co.
Birmingham, AL

GOLASINSKI: There are several factors aiding the recovery. Selling prices [of paper products] are up because operating rates have increased. Owners have a number of good-payback projects for which funds are now available. However, some of these funds will first go to strengthening our customers' balance sheets, so they will be cautious in releasing work to suppliers.



Werner E. Kade
President
Voith Sulzer Paper Technology
Appleton, WI

KADE: I would use the term "animation" rather than "recovery" to describe recent activity in our business. Recovery can be measured; animation is movement or activity by our customers before orders are actually placed. Our customers' situation has improved over the last year. The industry could finally reduce its discounts. Prices have stabilized to the point where paper companies can support their facilities. We believe this will lead to a long-term recovery.



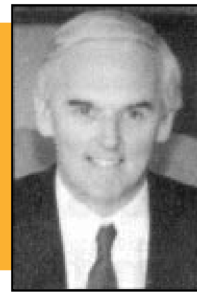
Carl C. Landegger
Chairman
Black Clawson Co.
New York, NY

LANDEGGER: Yes, the recovery has translated to our company. Our backlogs are getting longer. Because we're heavily involved in recycling, our business did not see as much of a downturn as our competitors'. Orders have increased in all of our lines; this is strictly a case of improved supply and demand. I see the recovery as long term. Because some of our customers were decapitalized (i.e., high operating losses caused a reduction in capital) in the downturn, there will be no surge of greenfield mills, for example. There are few of those big projects out there.

Domestic vs. overseas sales

Supplier companies, like their major customers, are finding that they must be willing to participate on a global basis to retain or increase their market share. While the largest suppliers have been multinational for years, their smaller domestic counterparts are increasingly going overseas. Although some may be attracting few new customers, their existing customer base is doing more offshore work. These suppliers must follow suit or lose business to their multinational competitors.

The North American market is gaining momentum for suppliers, but retrofits dominate this arena. With the exception of recycle facilities, few greenfield mills are being erected here. Rebuilds and upgrades, however, include significant new equipment from suppliers. The overseas markets are strongest in Asia, with the notable exception of Japan. Although this island nation shows signs of a recovery, its neighboring countries' economies are moving ahead at a faster pace. Following Asia, Europe is the next most prosperous region; Germany, upon absorbing East Germany, is less active. Considerable activity is also apparent in South America, perhaps driven by the enactment of recent trade agreements.



Don Aiken
Senior VP and General Mgr.
ABB Industrial Systems Inc.
Columbus, OH

AIKEN: Our business is currently balanced between domestic and overseas orders. We see fairly equal distribution in business in the United States, Europe, and Asia. We are seeing more investment in new facilities in the Asia Pacific region.

Capital investment plans (e.g., developing activities in China and Indonesia) most impact our domestic/overseas sales ratio. Paper product consumption is dramatically increasing in Latin America, China and Asia, and Africa. Local investments are being made there to support the increasing per capita consumption. Some of these areas are trying to develop an export market as well.

Mark R. Hallenbeck
VP
Chemical Pulping Div., Sunds Defibrator Inc.
Norcross, GA

HALLENBECK: We are equally busy in virtually all pulp-producing regions of the world. Indonesia is one of the strongest markets for us at this time. There is a tremendous amount of new capacity coming on-line here using indigenous hardwood. The North American market will be primarily a retrofit market for the foreseeable future. I expect to see few if any greenfield pulp mills being built. However, there will be considerable investment in existing mills to meet environmental requirements. South America continues to invest primarily in eucalyptus. There is also much investment in Sweden and Finland.

Laurie Wicks
Group VP
Beloit Corp.
Beloit, WI

WICKS: The United States is still our strongest overall market; however, we are seeing increased activity in the Pacific Rim.The latter will become increasingly important as the countries in this territory continue to expand their economies. To take advantage of this market, we have opened an office in Singapore and have had a roll-covering facility in China for 11 years

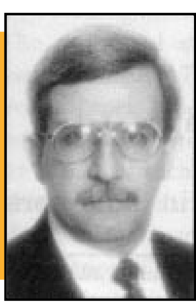
Product mix

There has been a subtle shift in suppliers' product mix that accompanies better times for paper companies. Several executives indicated there is an increase in firm-price engineer/procure/construct (EPC) projects. While these turnkey jobs can be more profitable for suppliers, the true benefit for both parties is that they force paper companies to more clearly define scopes of supply.

Suppliers are also experiencing increased activity in environmental areas, although engineering studies are dominant over actual contracts. In the area of paper machine rebuilds, the wet-end is the focus of activity, perhaps indicating a pent-up maintenance need for which dollars simply were not available over the last several years.

Mike Goodrich
President
BE&K, Inc.
Birmingham, AL

GOODRICH: There is more activity in the recycle portion of our business. We're seeing the emergence of more mini-mills (i.e., smaller mills built in urban areas that take advantage of existing local infrastructures).



Jim Thompson
Managing Partner/CEO
Thompson Avant International
Atlanta, GA

THOMPSON: We see a strong and growing environmental component of our business; I include recycling in this component. Local mills rely on us to help them communicate with the public on environmental issues. We expect to see more rebuild activity as opposed to new equipment, because it's easier to obtain permits for a rebuild or upgrade. Substantial environmental work is also expected in the next several years in response to the proposed cluster rules.

Profitable areas

Accompanying the shifts in supplier product mixes are realignments in profitable vs. nonprofitable business segments. Turnkey projects again surface as being more profitable. The sheer volume increase in EPC work may explain this phenomenon; paper companies are also downsizing their in-house engineering staffs, retaining only the highly skilled workers. Although the cluster rules are generating activity for suppliers, the number of these suppliers, and thus competition, is also increasing. Environmental work is seen by some suppliers as being less profitable.

AIKEN: In previous years, very good quality and equal technology resulted in a good amount of business for us. Today there is no premium for good quality; it's a requirement for being in business. The product areas that do well are either leading-edge technology or older products in which the learning curve experience is complete.

LANDEGGER: Although our recycling business is good, it is less profitable than some other areas. In the recent downturn, many machine shops (small and large) found that the recycling business was the only work that would keep them solvent. Because of this, there is considerable competition in this area, and profit margins suffer. The converter business is a more profitable segment for us.

Trends

If one stands back and looks at the broader picture of this cyclical industry, it is clear that we are facing better economic times, both in our economy and for the industry. Although suppliers share this optimism, they face several different challenges in maintaining the momentum and profitability.

Paper companies are paring their large engineering staffs, issuing more turnkey work. However, they are also slimming supplier ranks, preferring to enter partnering alliances with fewer, select suppliers. This trend, adopted years ago by the auto industry, for example, now joins us. Suppliers that survive and prosper also face another dilemma: finding enough qualified personnel to meet the expected demand. The engineering/construction industry is staffed at about 60% of its 1989 peak. With the sudden release of capital projects expected this year (1995), many suppliers will scramble to find the talented engineers and construction workers that they will need.

So the cycles continue. For supplier companies, their upturns typically lag their customers' by 6–9 months. This surely paints a brighter picture for both in the upcoming years.

Edwards is a freelance technical writer based in Uniontown, OH.

Supplier products and services

- ABB Industrial Systems Inc. provides paper machine gauging systems, drives, distributed control systems, pulping sensors, application software, manufacturing execution software, dryers, recovery boilers, motors and electrical distribution equipment, and environmentally related products.
- BE&K Inc. provides engineering, construction, and maintenance services.
- Beloit Corp. supplies pulping equipment, stock preparation and recycling equipment and systems, paper machines, winders, machine coaters, and rubber-covered rolls. The company also provides related engineering, repair, and maintenance services.
- Black Clawson Co. provides stock preparation paper recycling equipment, plastic film-making machinery, specialty converting machinery, and large sections of paper machines.
- Rust Engineering Co. supplies engineering/procurement/construction services.
- Sunds Defibrator Inc. provides washers, screens, pumps, mixers, bleaching equipment, and woodhandling and pulp-drying equipment.
- Thompson Avant International is a management and communications consulting firm that addresses issues in marketing communications and support, community relations, recycling, and strategic services.
- Voith Sulzer Paper Technology supplies paper machines, coating and finishing machines, winders, stock preparation equipment, secondary fiber plants, and roll-grinding machines.