

OUTSOURCING PROVIDERS

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*TODAY'S BEST OUTSOURCING PROVIDERS OFFER STATE-OF-THE-ART EQUIPMENT
TO MATCH THE CAPABILITIES OF A MILL'S BEST EQUIPMENT.*

TODAY EVERY MILL IN NORTH AMERICA OPERATES with at least some level of in-house slitting/rewinding capability. The technology from one mill to another, however, varies greatly. New, high-tech operations usually incorporate state-of-the-art rewinding equipment with in-line and off-line slitting capabilities to attain impressive results. Among the limitations of these operations is their need to conform to rigid production schedules to remain profitable. This affects the mill's ability to provide timely, finished rolls outside of a "defined norm" for roll diameter or width. To accommodate customers with unusual orders, these mills struggle to find the additional warehousing space while waiting to expedite those orders. Or, these mills must search for a reliable outsourcing provider who offers the same reliability, speed, and consistency at a cost that their customers expect.

Mills with older equipment generally cannot achieve the rewinding speeds or attain the same quality levels as the newer, high-tech mills. Therefore, the rewinding function is most often tagged as a primary bottleneck. This particular bottleneck has several obvious effects including stifled logistics, additional product handling, increased inventory levels, and safety issues. These negatively affect customers by forcing longer lead times, increasing customer inventories, and adding to product costs.

In strong relationships the issues of inadequate quality, limitations of equipment, inconsistent order fulfillment, and high inventory levels are tolerable for a short time. However, as a standard mode of operation, these negatively affect your customer relationships. And, as in any other business, an inability to satisfy a customer's needs affects your ability to keep these customers.

Today's best outsourcing providers offer state-of-the-art equipment to match the capabilities of the mills' best equipment. In addition, by offering narrow widths on a variety of materials with small minimums and short lead times, these providers have the ability to meet or exceed your highest expectations.

WEIGHING THE TRUE COSTS OF OUTSOURCING

Many mills today outsource at least a portion of their slitting/rewinding function to hide deficiencies, overcome a short-term problem, meet a new customer's need, or gain an advantage over competitors. High-quality outsourcing providers give you the option to make up for your mill's deficiencies while capitalizing on their value-added services.

Mill managers usually have a number of questions when considering the decision to outsource. "Can we do it ourselves? Will I be able to find a reliable source? How will this affect our internal operations? How much will it really cost? Will we lose control? How will this affect our people? What will our customers think? Should our customers know? What happens if...?"

OPPORTUNITY COSTS AND YOUR CORE COMPETENCY

When sorting through the issues of outsourcing the rewinding function, ask yourself what factors would affect your mill. If the concept is new to you, a reputable outsourcing provider can help you understand all of the issues. Study the external factors and consider several key internal issues including service capabilities, opportunity costs, and your mill's "core competency."

Opportunity costs and your mill's core competency are the subjective costs that enter the equation of outsourcing. They are the hidden costs that, on the surface, make your in-house capabilities look deceptively good. Consider the following scenarios.

Case No. 1

New projects and new customer requirements are challenges you may face several times a year. Imagine that one of your customers wants a unique, new grade of paper that you've worked long and hard to develop. This could be combined with a need for narrow-width materials that your mill can't turn around in less than six weeks or that you simply can't convert, based on the limitations of your equipment. Your research costs could be lost unless you can service that customer in a timely manner.

Case No. 2

In most mills, engineering and technical talent is most likely concentrated in papermaking and the equipment- and process-design capabilities needed to support paper science (your core competency). If you are required to devote your mill's engineering resources to upgrading your current equipment or specifying a new winder, what are you giving up? Is rewinding truly part of your core competency? In most mills it is not. With minimal experience in the latest winding technology and with limited supplier relationships, your staff may take 2-3 times longer than is really required to upgrade or specify new equipment. This is time that could be better spent devoted to paper science.

Case No. 3

Another area to consider, from a mill perspective, is the effective use of capital or project management dollars. Many of North America's leading paper companies are re-examining their use of capital funds through new accounting procedures and measurement tools such as economic value-added (EVA[®]) costing. EVA, a trademarked term of Stern Stewart Co., identifies net operating profit after taxes and then subtracts a charge for both the debt of the business and the expected rate of return on shareholders' equity.

What EVA and similar measures force companies to do is to invest only in equipment that will prove most profitable over the long run. These measurement systems force a "competition for capital," driving away marginal projects and leaving only the best options for consideration. Simply put, EVA is a measurement tool that helps companies avoid making marginal capital equipment investments.

Robert C. Edwards, director of strategic capital planning for Union Camp, summed up the problem of marginal capital equipment investments best at TAPPI's Finishing and Converting Conference in October 1996. According to Edwards, "We are a capital-intensive industry, driving ourselves to the point where we will no longer be able to compete for capital."

If a major equipment purchase that you are considering (e.g., a new rewinder) can't provide a reasonable payback, or if it doesn't fit your mill's core competency, the project simply shouldn't happen. Following the same thought, if upgrading your converting equipment is not a wise investment yet your customers demand more, outsourcing may help streamline your operation, make optimal use of your technical and financial resources, and offer total lower costs to your customers.

WHAT MILLS SHOULD LOOK FOR IN AN OUTSOURCING PROVIDER

Achieving high-quality rewinding at reasonable costs is possible with an approach that includes the following key elements: specifications, equipment, people, and a system. Typically, because rewinding is not part of a mill's core competency, mills achieve good results in only one or two of these areas. A high-quality outsourcing provider can fulfill all of these requirements and provide you with the assurances that are necessary to guarantee your success.

People

People who understand rewinding and slitting from both the setup and runnability aspects, as well as from the customer's perspective, are perhaps the most essential ingredient to delivering quality rolls. Experienced rewinding and slitting personnel accumulate and synthesize their knowledge to optimize the running of customer orders. The acquired knowledge of running a variety of materials makes setting up machine parameters for new materials extremely efficient. This is the foundation of an outsourcing provider's core competency. Today a provider's ability to quickly meet the changes of its customer's slitting requirements is the underlying reason for success in producing quality rolls, regardless of the customer requirements.

System

A strategy of equipment standardization, as well as an order-scheduling system that can take full advantage of the available people and equipment, is the final piece of the organization that can deliver high-quality rolls. Electronic "setup sheets" that have the appropriate information about machine settings and specific customer requirements are used with every job. Consistent, state-of-the-art equipment allows a job scheduler to react quickly to customer delivery requirements, with the ability to run each job on virtually any of the converter's machines with the same high-quality results.

By making slight modifications to some machines, the range of products that can be run by the provider is increased. Efficiencies can be achieved by reducing setups for similar materials or cut sizes. The operating crews have confidence because all of the equipment is standardized. Maintenance is easier as parts and troubleshooting knowledge are consolidated. Machine upgrades can be made efficiently without affecting production, because work can be distributed to several machines and only one design is needed to upgrade all of the equipment.

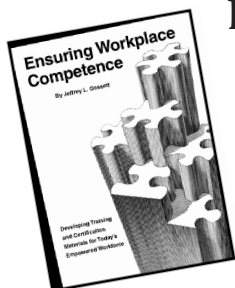
ELIMINATING BOTTLENECKS AND CHANGING THE WAY YOU CONDUCT BUSINESS

An outsourcing provider with the four key components—a good response to customer requirements, an ability to define and meet product specifications, experienced personnel, and a flexible system featuring state-of-the-art equipment—can provide consistent, quality rolls time after time. Those outsourcing providers do exist.

They not only eliminate your rewinding bottlenecks but can change the way that you conduct business today and in the future. **TJ**

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