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## Packaging Grades

### *Stay Competitive*

Producers of packaging grades, liner and medium, face major challenges in their efforts to gain a reasonable return on equity or assets. Historically, these segments of the paper industry have suffered from the classic market price fluctuations associated with a close supply versus demand marketplace.

These primary grades are considered to be in the commodity category with the pricing level determined by the short-term supply/demand ratio. As fluctuations in costs and product pricing are very difficult to reconcile, it is also extremely difficult to project or predict a lasting return on investment. The inability to adjust market prices based on cost variations results in a continuous effort to reduce all costs and produce products in the most efficient manner possible.

The short-term focus on managing all costs to the absolute minimum can result in long-term performance problems and may in fact jeopardize the entire enterprise. This is typically done through reduced routine maintenance and insufficient capital spending. Over time, the reduction in capital spending reduces the facilities ability to produce a competitive product in terms of quality and cost.

The stronger companies in this market have employed a critical balance between short and long-term objectives to both manage today's cost and maintain the longer-term viability of the enterprise. This seemingly conflicting approach is essentially required to produce the financial performance demanded by both stakeholders and financial institutions.

This strategy manifests itself in the form of continuous process improvements and upgrades to maximize the return on current assets and to maintain the competitive and financial viability of these facilities. The longer term effort results in addition of new production capacity to meet the steady increases in consumption. It is very important that the industry continues the current philosophy of dismantling older processes as the new ones come on line. Historically, these older facilities, in new ownership, have been proven to provide the additional low cost product that tips the supply/demand ratio and lowers the price of the entire grade family. In periods of slow economic activity, the strong companies have invested in process upgrades to improve yield and quality. These investments are not capital intensive and require only short production outages.

Additionally, these short outages serve to keep the inventory in balance during the slower periods. A key area of opportunity for the smaller projects is to improve the process moisture characteristics. The typical application uses a combination of steam showers in the forming and press sections and remoisturizing sprays before the reel. Mills report substantial quality improvements, superior raw material efficiency and increased paper machine productivity.

These results are seen in reduced rejects at the reel, increased production on dryer-limited grades, and raw material savings through increased moisture levels.

It is a real challenge to combine products manufactured as commodity materials and convert them to a highly engineered structure (box). Reductions in MD and CD moisture and weight variability significantly contribute to better performance and yield in this process. The key benefits beyond on-machine quality and yield are the additional results in the converting and distribution channels. These are the true value-added improvements that produce performance throughout the life of the finished box.

In summary, the process performance and economic challenges in the packaging grades are difficult. The prudent use of resources to optimize today's return coupled with additional capacity as the demand increases can result in a healthy and viable industry.

While it will always be essentially a commodity business model, it is one that meets a continuing increase in demand and can generate favorable returns in the long run.