

*In recent months, a number of industry suppliers have stepped forward and warned the paper industry that lack investment, the absence of new product innovation, and a fixation on cutting costs “at any cost” has stripped away its competitive edge.*



The paper industry, like every other industry, cannot “save” its way to a profitable future. This industry must find a way to invest in itself, with capital, people, technology and fresh ideas to ensure long term success.

# The Industry Has a Problem, Let's Fix It!

By JACK O'BRIEN, EDITOR-IN-CHIEF AND MIKE O'BRIEN, PUBLISHER

Over the past decade, the North American paper industry has invested little in itself, and the results are now far reaching. Product improvements are non-existent, equipment and machinery is aging and inefficient, and paper's competitors, i.e. plastics, continue to slice away pieces of the industry's pie.

“The business model is not working and the industry has a problem,” stated Frank Schmeler when queried for his view on the U.S. paper industry.

A part of the solution is an old cliché: You have to spend money to make money—easy to say, much tougher to do, especially when investment dollars are hard to come by.

In an exclusive interview, Schmeler, Chairman and CEO of paper machine clothing-maker Albany

International, didn't pull any punches as he spoke candidly about issues facing the paper industry and the potential fallout on those involved with the industry. He also offered some thoughts for change.

## Where do you see the U.S. paper industry today?

**Frank Schmeler:** The U.S. paper industry has done a good job in driving out costs and right-sizing in recent years. However, the installed capacity base is dated, and world class, efficient paper machines will be required to compete globally. The industry must begin to invest and innovate going forward. Without change in this regard, the industry here in the U.S. will die a slow death, and the supply base will die with them.

### Much has been said about the industries cost cutting and lack of spending. What is the impact?

FS: During the last few years, paper companies were able to improve earnings by employing some brave cost cutting measures. At the same time, they placed increased pressure on suppliers to further reduce cost of supply. While the paper companies rely on their suppliers to provide innovation and technical services, the cost cutting activities put these support needs in jeopardy. Every supplier has the responsibility to be as efficient as possible, while providing sufficient returns to shareholders. Today, most paper companies understand that R&D and product innovation require investment from both suppliers and customers.

### How has the role of the supplier changed?

FS: The supplier in times past had a relationship with paper companies built on respect and trust. An unwanted by-product of the severe pricing pressure put on paper and supplier alike, has been the loss of trust in these important relationships. Today, suppliers need to be able to supply product, design systems, identify papermaking problems and work toward common objectives with the mill. Without trust, these activities are not possible.

Today's suppliers must be willing to invest in innovation and process improvements, which will lead to customer improvements. We have to regain trust in one another.

### What do you suggest?

FS: It must begin in North America with investment, by both supplier and paper company. World class, efficient paper machines lend themselves to new technologies and new paper products for new markets. Suppliers and paper companies must work toward combined goals to identify new growth opportunities, and to exploit them.

### Obviously, innovation requires investment.

FS: For North America, there are two threats. First, the current threat is the newer installed equipment base in Europe and Asia, which unchecked will dramatically impact the future of the industry here, and secondly, the major threat to paper products from plastics and other

materials. The plastics industry has invested heavily in displacing paper—we need to fight back. Our industry needs to take some investment risk to find new opportunity. This is an issue for paper companies and suppliers alike. We have to work together to develop new efficient products both to regain and find new markets.



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### The tissue makers have made strides in the area of product development. What can we learn?

FS: Tissue is a great example of how product innovation allows an industry to lead its market. They have been successful because they invested in their assets, and most importantly, they have worked to develop new technologies and a stream of new products for their customers.

### Should R&D fall entirely on the shoulders of paper companies?

FS: No, the future of the industry rests with all of us. But paper companies must be willing to invest a larger financial stake in their own growth and destiny than has been in evidence in recent years.

### What does Albany bring to the table?

FS: Albany International has a long history of product innovation for the paper industry. We intend to continue that focus, and will invest in the future in R&D and new product development that creates the opportunity for new paper and board products and markets. These opportunities require trust in the relationships between our people and paper companies. Many forward-thinking companies have shared their market goals with us, and we are working together to improve their opportunities. We are working to convince the others that together we can make a difference.



L-R: Jack O'Brien, Frank Schmeler and Mike O'Brien at Albany International headquarters in Albany, New York.

### **Price has been the over-riding factor in many deals and is a real bone of contention for the suppliers. What is going on here?**

FS: Every supplier has the responsibility to be the most efficient producer he can be. In supplying the Paper and Paperboard industries, price got too much focus through the 90's, and suppliers were driven out of business. We simply allowed the erosion to go too far. Paper Machine Clothing (PMC) is not a commodity to be driven by price alone, it is a strategic driver for the paper machine, and can have dramatic impact on the paper making process. At the same time, PMC costs represent less than 2% of the total operating costs at the mill, with huge opportunity to impact costs in other areas.

We are encouraged that many companies today realize they can significantly impact benefits to their operations through cooperative relationships with suppliers. Conversely, if the price erosion were to continue, suppliers would have to cut R&D in order to survive. Obviously, this would result in a lose/lose situation.

### **How do you get papermakers away from strictly shopping price?**

FS: Suppliers have a responsibility to deliver value for price to our customers. Mutual goals for both customer and supplier will ensure we are working together on the right things. Mutual trust and respect are implied in these relationships.

### **Do you see an end to the practice of shopping price?**

FS: There remains a supply disconnect between some corporate paper groups and their operations. I think we have done a reasonable job in delivering value to our customers and discussing benefits derived with the operations people. We have not done as complete a job with the corporate groups. As a result, too often our corporate discussions remain centered on price alone. I am more interested in zeroing in on efficiency, innovation and quality, which result in valued products and services. Improve in these areas and the costs will take care of themselves.

### **A number of suppliers have announced their intentions to charge for technical service. Is this a future consideration for Albany?**

FS: I see Albany charging for certain high technology services, specifically those not related to PMC application and operation. We are currently offering a number of very specific studies, including Press Section Vibration Analysis that might fall into this category.

### **Charging for once-free services will not be easy.**

FS: It is important that our customers understand exactly the value delivered through Albany products and services. Our people created the Albany Value Concept (AVC) campaign to bring focus both internally and externally on value delivered to our customers.

Today, we realize that the future of the industry is at stake, and we intend to use our technology to assist customers in creating new valued products for their markets. That is what AVC is all about.

### **A final thought?**

FS: The paper industry, like every other industry, cannot "save" its way to a profitable future. This industry must find a way to invest in itself, with capital, people, technology and fresh ideas to ensure long term success. We believe that product innovation and investments in technology will be at the center of our support to our customers. At Albany International, we believe we can help in all of these areas. We are betting our future on it! ■