

Revision Five/ALUM – 152

Jim Poure Speech

Paper Industry Management Association

June 25, 2004

Note:

- *These remarks to be delivered during a seminar session.*
- *Title of Speech: “What Does It Take to Survive in a Commoditized Market”*

(Following introduction that mentions the name of the speech)

Good afternoon.

That’s quite a long title for my little speech.

I’ve been in the chemical industry for 40 years ... working my way through the ranks from salesman to vice president and general manager. And, for the last 25 years, as an entrepreneur who founded and is the owner of a business involved in the production of chemical commodities and specialty chemicals for specific niche markets.

That business started as General Alum and Chemical in 1979 ... and is celebrating its 25th anniversary this year. When I started ... I had a company name and knowledge. I didn’t have a marketable product or a facility. Over the

years of hard work, our company grew ... and in 1998 ... since we were much more than a single product producer, we changed the name to GAC Chemical Corporation ... and continued growing the business to reach \$35 million in sales.

Last year ... I reached an agreement with my son and another company executive to sell them our operations in the Midwest ... while I and two other of the company's executives assumed control of the firm's assets in New England.

My son's part of the company ... GAC MidAmerica ... has terminals and production facilities in Toledo, Ohio; Indianapolis, Indiana; and Saukville, Wisconsin. It serves the paper industry in the country's midsection.

Our part of the company ... GAC Chemical Corporation ... has its manufacturing and distribution facilities on a 152-acre site in Searsport, Maine ... Our plants manufacture aluminum sulfate ... sodium aluminate ... ammonium sulfate ... aqua ammonia ... sodium hypochlorite ... and terminal sulfuric acid.

Our major customers ... as you can imagine ... are the paper industry, especially in Maine, and water and wastewater treatment facilities.

I tell you this ... not to toot our own horn ... but to give you some idea of where I'm coming from with my remarks.

A lot of what I'm going to talk about today I've seen and experienced firsthand. Just because I've been through these things ... however ... doesn't mean I have all the answers. What it does mean is I've managed to survive.

(Pause)

My remarks today will deal with some of the problems facing the paper industry from my perspective as a supplier to the industry ... and what I believe are solutions to these problems that already exist ... even though these solutions may not be as readily apparent as we would like.

In some instances ... as drastic as this may sound ... these solutions may involve re-inventing the paper industry ... or at least parts of it.

(Pause)

There's a formula in public speaking that is credited to an old preacher. I have no idea who he is ... when or where he lived ... but the formula is well known.

Supposedly, he told his congregation one day ...

“First ... I'm gonna tell you what I'm gonna tell you.

“Second ... I'm gonna tell you.

“Third ... I'm gonna tell you what I told you.”

So for the first point ... this afternoon ...” I'm gonna tell you what I'm gonna tell you” ... that's about the four things ... the four “Rs” ... the paper industry must do to survive in a commoditized environment.

- The paper industry must ... **recognize** that to survive it has to make changes.
- The paper industry must ... **realize** it is not alone in this situation. Others have gone before.

- The paper industry must ... **rely** on intrapreneurship ... that's intra-preneurship. In other words ... talk with your employees, your customers and your suppliers.
- The paper industry must ... **re-emphasize** the importance of networking.

The four “Rs” ... recognize ... realize ... rely ... and re-emphasize.

(Pause)

The old preacher’s second point was ... “I’m gonna tell you.”

So ... now “I’m gonna tell you” about the four “Rs” one at a time

The first “R”: ... The paper industry must recognize that to survive it has to make changes.

From my observation ... the paper industry is one of the last industries to come to the realization it must change to survive. It must introduce new technologies.

This is the era of the computer and automated equipment. Gone are the days when the plant manager or the production supervisor would work some kind of black magic ... and the end result would be paper.

The paper industry has to re-identify with its markets, which might require moving away from the huge integrated mills of the past. Many industries are moving toward smaller production facilities that are located closer to their markets ... to cut down on transportation charges.

And ... with gas prices at \$2 dollars a gallon and moving upward ... the price of transportation will become an even larger “bogey” to overcome in the future.

It's obvious paper mills have been built close to their source of raw materials. So ... for the most part ... were steel mills and glass plants and any number of other manufacturers.

It made sense ... in the past ... to build close to the source to avoid paying to ship raw materials. I don't question that logic, but I ask you ... is it time to step back and look at what's going on and possibly re-think this location strategy?

The history of commerce is littered with stories of companies that didn't change with the times and were eventually swept by ... by newer developments. We're seeing one of these instances happen before our very eyes today.

Photo industry giant Eastman Kodak hopefully is pulling out of a near death spiral that has already claimed former high-flying photo company Polaroid. Polaroid filed bankruptcy last year ... after nearly knocking Kodak out of the picture itself ... a few decades ago.

Kodak was able to overcome the Polaroid phenomenon ... but can it overcome the onslaught of digital imaging?

I can tell you firsthand that our sales of chemicals used in photo processing are down.

Kodak either did not see digital photography coming or suffered from a “Kodak Moment” gone wrong ... and very badly underestimated the impact the digital revolution was going to have on the photographic film and print business.

Kodak ... after all ... invented home photography. It offered everything you needed ... the camera ... the film ... the paper and the chemicals. It also led the way for itself and others in commercial uses of photography with X-ray and now MRI technologies and all the supplies to make these medical technologies ... and others to follow ... a reality.

But ... if you look at Kodak’s earning’s statements and the number of people it has cut from its employment ranks in the past several years ... you’ll see the impact digital imaging has had on Kodak. The signs were there ... sure enough. But ... did Kodak have blinders on ... or did it misread the popularity of this upstart technology?

One thing’s for sure ... Kodak isn’t the company today it was 20 ... or even 10 years ago.

Time will tell if the changes Kodak has ... and is ... making are enough to permit the venerable old company to remain atop its lofty perch ... or if it will tumble down the mountain part way.

So to has the chemical industry had to make changes ... in order to survive. Some companies are still going through what is for them a very difficult time.

The adoption of quality and production standards ...such as those put forward by the International Organization for Standards ... or ISO ... and the National Science Foundation ... or NSF ... are steps that have proven of immense value to the chemical industry. These standards have helped to ensure that chemical products are of the highest quality and consistent production methods are followed.

If your plant and company are not adherent to these advanced manufacturing and quality standards ... I urge you to adopt these standards and become qualified ... yesterday!

Further, one movement we've seen in many industries ... including the chemical industry ... is the building of captive production lines or facilities either within a customer's facility or within very close proximity. These captive production units are able to deliver component materials immediately to the customer's facility ... eliminating the need for elaborate scheduling and the headaches and lost production associated with missed shipments.

Please remember: Change is not always for the worse ... but it almost always is difficult to adjust to ... initially. Forethought ... planning ...and teamwork are elements that are essential for successful transitions. Now is not too early to begin the process for change.

(Pause)

The second of the four Rs is ... the paper industry must realize it is not alone in this situation. Others have gone before.

There are valuable lessons to be learned by looking at what others already have accomplished. The questions become ... why did these companies have to change ... what did they do and were they successful?

Why did they have to change? You know as well as I ... the reasons for change are countless and range from poor management to labor problems ... from raw material shortages to environmental considerations.

Let's take a closer look at environmental considerations and the impact they've had. Pollution of the air ... of the water ... of the land. These are problems that are relatively new to the history of the world. These problems are byproducts of the Industrial Revolution.

Is there anyone in the audience involved in producing a product whose product is not subject to environmental regulations of one type or another?

(pause...make eye contact with audience).

In the chemical industry and in the paper industry ... production results in "things" of one kind or another that have a detrimental effect on the air we breathe ... the water we drink ... and the earth on which we live.

What is it they say about a situation where you are presented with a bunch of lemons? You make lemonade ... right?

The same is true with environmental regulations. You find not only a way to live with the regulations ... but the successful industries figure out a way to make the regulations pay for themselves through the creation of new or byproducts.

The chemical industry is a good example. Most of our production processes today are now closed loop. We don't "release" anything into the air or into the water or bury anything in the land ... until the things we are disposing of ... have been neutralized and any value removed.

Said another way ... we look for better ways to produce our products ... and we look for byproducts that can be made from the residue that was once disposed ... to cover the cost of the environmental regulations and even provide additional revenue.

In the aluminum sulfate business ... one that I happen to know quite a bit about ... we used to make aluminum sulfate from bauxite. This meant extrapolating the alumina to remove the clays and heavy metals and then further processing the alumina to yield aluminum sulfate. And ... when we were done ... we had environmental challenges with tainted water and a lot of solid "stuff" to dispose of.

Well ... we poked around here and there. We went to the basic aluminum industry and looked at what it had available. We found that it offered a purer ... aluminum trihydrate ... which was just what we needed to make a high-quality aluminum sulfate.

So we stopped using bauxite ... which meant that no basic material had to be extracted ... and began using aluminum trihydrate as one of our basic raw materials. Thus ... our production process was modified greatly ... lessening the environmental problems we had previously. It also provided a higher-quality

finished product at a competitive price. Eventually, our competitors were forced to use this same process in order to make a product with the same high quality as the aluminum sulfate we were producing.

Remember ... one man's crap ... can become another's gold.

(Pause)

We all take fiberboard ... or particle board ... or even oriented strand board ... for granted these days. But there was a time about a half a century ago ...when wood processing companies and ... yes ... paper companies were pumping unused chips and fibers into settling lagoons and turning their backs on them.

With patience ... ingenuity and foresight ... these fibers and chips are today being turned into valuable products for the construction industry. Drive by a construction site and look at the materials being used. More and more the byproducts of paper production and wood processing.

As I said ... one man's crap can become another man's gold.

(Pause)

We can learn a lot about change within American industry by studying the steel industry.

Earlier in my lifetime ... huge vertically integrated steel mills employed thousands and provide the livelihood for entire regions ... now these same mills are rusting ... silent ... lifeless monuments to an industry that did not change fast enough.

Today and for the past couple of decades ... foreign imports have been eating the U.S. steel industry's lunch ... in great big bites.

Last year, the head of the United Steelworkers Union ... Leo W. Gerard ... told the U.S. International Trade Commission ... that unprecedented import surges in 1998 through 2001 spawned a steel crisis so severe that the repercussions had a devastating effect on firms and workers alike.

Here are some of the points he made to the Commission ...

- 39 companies were forced into bankruptcy.
- 26 million tons of U.S. steelmaking capacity were idled or shut down between January 2000 and January 2002.
- Steel prices fell to their lowest level in 20 years, causing industry observers to note that the industry had experienced three "death spirals" in five years.
- 56,000 steelworkers lost their jobs.
- 200,000 steelworker retirees, widows and their dependents lost pension and health care benefits.

(Do you see some familiarity here?)

Things still are not good for the overall U.S. steel industry ... and they haven't been for years. Foreign trade is without a question one of the areas that has hurt steel. Off-shore steel plants ... much more modern and efficient than America's ... plants that are subsidized by their governments ... have been

dumping low-cost steel in our country in a move to gain market share ... and they are succeeding.

But ... not totally. There are some shining “points of light” ... as President Bush senior used to call them.

Let me tell you about one such “point of light” that I know very well ... you see my son-in-law and his father are the driving forces behind it.

For years, the Armco Steel plant was one of the Marion area’s leading employers. But ... early in the second half of the last century ... hard times came knocking and eventually the plant was closed. Hundreds were thrown out of work. The once bustling mill stood vacant for a number of years.

In the late 1970s ... the same time I was getting my company started ... Jim Conway and his family were doing the same thing.

Conway previously was vice president of sales and marketing for North Star Steel. His background gave him an insight into the marketplace for steel.

Based on his market knowledge ... Conway opened a “mini” mill within the huge former steel plant. He installed new, high-efficiency blast furnaces and brought in other modern production techniques.

Additionally ... Marion Steel ... as the company is known ... followed up on the environmental concerns of the day and began using 100 percent recycled steel to feed these blast furnaces.

Today ... the company proudly proclaims that it is a “... low-cost producer of rebar ... merchant bar quality angles ... flats and rounds. In addition to our

merchant products” ... the company’s Web page proclaims ... “Marion Steel Company has earned the reputation of America’s signpost leader ... manufacturing a complete line of Federal Highway Administration approved u-channel sign supports and delineation products.”

And now ... Jim Conway’s son ... Steve ... my son-in-law ... is working with the highway departments in Ohio and Minnesota ... and this summer will install 12 to 14 miles of a test product along highways in each state.

These new installations will use steel cable ... manufactured by Marion Steel ... instead of the traditional single piece of steel ... as a “guard rail” along the roads. This new approach offers the possibility of being not only safer ... it’ll give some on contact instead of remaining immobile ... but also of being most cost effective.

This new product is a good example of the need to continue to be innovative and look for new products and growth opportunities ... instead of sitting back and resting on your laurels.

Let’s look more closely at what the Conway’s did ...

First ... They took a plant that was closed and gave a portion of it new life, doing the same for the Marion, Ohio, area ... providing employment to 407 workers who otherwise would not be working in the steel industry.

Second ... They installed new technology and efficient production techniques, which Armco did not and ... possibly ... could not do because of restrictive labor contracts.

Third ... The Conway's circumvented the high price of raw materials, instead choosing to use recycled steel as the basic feedstock for the company's new blast furnaces ... and I'm guessing that not only are the raw material costs lower ... so are the energy costs versus making steel from virgin materials. And ... they provided a market for scrap steel, diverting it from landfills, etc.

Fourth ... They found a niche market and filled it.

(Pause)

Let's just hope that the paper industry studies and follows the companies that have successfully negotiated the minefield of change.

(Pause)

The third R the paper industry must do is to rely on intrapreneurship ... that's intra-preneurship. In other words ... talk with your employees, your customers and your suppliers.

O.K. Let's get this out of the way. We all know what a consultant is ... right? He's someone ... who the further away he gets from his home base ... the smarter and more expensive he gets.

Probably my favorite definition of a consultant is ... A consultant is someone who borrows your watch, tells you the time and then charges you for the privilege."

(Pause)

Well, consultants are easy targets. At one time or another ... most of us have dealt with a consultant or twenty-some.

Many take bad wraps for the sins of a few. However, I maintain that before you call in the consultants to tell you how to run your business or what to do ... practice intra-preneurship ... and talk to the people who know your business the best ... your employees ... and the people who know your business the second and third best ... your customers and suppliers.

My personal definition is intra-preneurship is the art of developing and growing a business by seeking the counsel and guidance of that business' employees and others who are closest to the business.

Intra-preneurship is what I suggest a business do ... instead of immediately running out and throwing a bunch of money at a consultant ... who in turn talks to your employees and then tells you what these employees are thinking.

Once you get beyond your employees and suppliers' natural tendencies ... which are to tell you what you want to hear ... and get down to the nitty-gritty ... you could just be in for the revelation of a lifetime.

Talk with them and with your customers. Ask them probing questions ... and then listen for their answers. Talk to them individually and in groups. When

problems arise, get a group of the people who work in the problem area together and avoid placing blame. Have them tell you what the problem is and what they think can be done to solve the problem.

Ask them ... “how can we make this process more efficient?”

Ask them ... “How can we make this product better?”

Ask them ... “What can we do with the residuals of our manufacturing process?”

(Pause)

Let me tell you the story of Lee, the maintenance man. It’s a true story, I know because I was involved.

My business was a few years old. I was using tried and true production methods and equipment in the production of alum.

GAC and the rest of the industry were having troubles with the reactors we were using to produce alum from aluminum trihydrate. The ten-thousand gallon reactors had carbon steel bodies lined with refractory brick and a lead inner liner. The lead liners on the reactors were fracturing continually ... causing down time ... leading to lost production and lost profits.

One day ... out of frustration ... I got the people who worked on the reactor together to see what we could do about the problem. Lee was among the group.

I listened to the engineers and the operators talk about this and that. After a while, Lee spoke up.

He had observed the reactor for quite a long time ... and one of the things he noticed was that there was never any problem with the shaft on the lightning mixer in the reactor. He even went so far as to measure it on several occasions with a micrometer. There was never any change in the shaft's dimension.

Lee noted the shaft was made from a certain alloy ... we'll call it alloy X. He suggested we consider making the reactor body out of the same alloy.

A couple of days later, I called a professor of metallurgy I knew at Purdue University. I recounted the problem and asked him about Lee's suggestion of making the reactor body out of alloy X. He said he would research the suggestion and get back to me.

In a couple of weeks, the Purdue metallurgist called. He said he had studied the suggestion and couldn't find any reason why the alloy shouldn't be used for the reactor body.

It's been over 20 years since we began using that alloy for the body of our alum reactors.

Since then ... I've taken every opportunity I can to practice the art of intra-preneurship ... when we have problems ... we get our people together ...

who are involved directly in the situation ... and we talk about it and solicit their input.

I've learned there's a hidden value to listening to your people. They know what's going on.

(Pause)

The fourth and final R is the paper industry must re-emphasize the importance of networking.

We all know what networking is ... right?

Let me give you an example from my own experience ...

I don't know how many of you know where Saukville, Wisconsin, is. It's a handful of exits north of Milwaukee on I-43.

I was looking for a site in that area to locate a terminal and production facility. I had had conversations with industrial realtors in the area ... who were looking for me. But ... it seemed they were taking forever and the results were not encouraging.

Based on my past involvement with community economic development groups ... I knew the value that comes from networking with local officials. So, I struck up an acquaintance with the young man who was the mayor of Saukville

... who also was a supporter of then Wisconsin Governor Tommy Thompson ...
now the U.S. Secretary of Health and Human Services.

After hearing of my interest ... and what was required for the plant site ...
the mayor called his good friend Governor Thompson. So, there I am ... in a
hotel room in Wisconsin about midnight one night and my phone rang. It was an
invitation to meet with Governor Thompson the next morning.

The next morning ... the governor greeted me with open arms. When I left
my private audience with him, I had a pledge of financing help from the state
development department and the state department of transportation had agreed
to build a rail siding to the plant site in Saukville at no cost.

All this happened because of networking.

Several months later ... the governor talked to a group of Saukville
residents and others who had gathered for the opening of our new plant. That
might seem like a lot of talking ... but it got the job done and created a number of
jobs ... as well.

(Pause)

I believe in networking ... I believe in working with others in your industry
... and I believe in working with other industries and groups in your geographic
area. In each case ... within the industry and within the area ... working together
... sharing knowledge and utilizing others abilities ... can and will make your

company stronger. Further ... networking will help you develop relationships that can be called on in times of need and high stress.

When is the best time to develop those relationships? When you don't need them ... that's the best time to develop such relationships ... so that when you do need them ... they'll be in place ... and you can call upon them for help quickly.

Networking involves belonging to ... and contributing to ... and shouldering your fair share of the leadership responsibility for trade associations within your industry.

Networking involves belonging to ... and contributing to ... and shouldering your fair share of the leadership responsibility for business and civic betterment groups in your hometown, area and region.

Over the year's I have practiced what I preach. I've been a participating member of the National Association of Manufacturers, the Ohio Manufacturers Association, the Wisconsin Paper Council, the Ohio Chemical Council, and the University of Maine Pulp and Paper Foundation.

While in the community ... I've been privileged to be chairman of the following organizations... the Toledo-Lucas County Port Authority ... the Toledo Area Regional Growth Partnership ... the Toledo Area Chamber of Commerce

and the Jamie Farr LPGA Kroger Classic golf tournament ... to name a few of my involvements.

These past involvements have been tugging at me. Since I've moved my business interests to New England ... I must admit ... most of my energies have been turned inward toward further developing the Searsport, Maine, facility.

Things are to a point now ... where my time and my conscience ... have reached a balance. Recently, our COO ... who I brought to Maine from Ohio with me ... and I visited the University of Maine's Pulp and Paper Foundation at Orono, Maine. This was an attempt on my part to overcome what I felt was the previously lousy job we were doing networking with the paper industry and its affiliates in the New England area.

You've heard the old saying about business is where you find it. Well ... guess what.

During this networking visit ... we learned the foundation was the holder of a number of patents for developments and products originated by DuPont.

By coincidence ... one of these patents involved technology for a retention aid used in papermaking ... which utilizes two of the chemicals we produce at the Searsport facility.

We have agreed to pay the foundation a royalty. In return ... we have the right to manufacture, sell and sublicense other producers in other regions of the country to produce this technology.

And ... our COO and I thought we were just paying a networking visit to get to know the foundation better and possibly make some contacts with others in the industry in the New England area. We did that too ... but we also came away with an opportunity to make money for our company and for the foundation.

This is a definite win-win situation. But to score the win ... we had to get off our butts and make the call.

I urge all of you to examine your commitments and to engage in networking for the good of your company ... community and industry.

I've found in this day and age of cost cutting and squeezing the lemon until it turns to dust ... that many larger companies are doing away with networking. They are turning inward ... and we all know what inbreeding leads to.

Some companies ... I believe ... still recognize the value of networking and continue to practice it.

(Pause)

Well ... let's see. I've already told you what I was going to tell you ... and ... I've told you ... now it's time ... as the old preacher would say ...”to tell you what I told you.”

We've talked about the four things ... the four “Rs” ... the paper industry must do to survive in a commoditized environment.

They were ...

- The paper industry must ... **recognize** that to survive it has to make changes.
- The paper industry must ... **realize** it is not alone in this situation. Others have gone before.
- The paper industry must ... **rely** on intrapreneurship ... that's intra-preneurship. In other words ... talk with your employees, your customers and your suppliers.
- The paper industry must ... **re-emphasize** the importance of networking.

The four “Rs” ... recognize ... realize ... rely ... and re-emphasize.

We examined each of these points and used examples from my experience to illustrate the points. We talked about the lessons to be learned by looking at what other industries have gone through as they have changed ... especially the steel industry and how the Conway family achieved success by finding a niche and filling it with its production from the Marion Steel Company.

The objective has been to get the paper industry to realize that change is certain and that the survivors will be those who prepare ... who study the lessons of other industries ... their successes and their failures ... and who then approach the whole matter of “change” with an open mind and some “outside the box” thinking.

Please remember: Change is not always for the worse ... but it almost always is difficult to adjust to ... initially. Forethought ... planning ...and teamwork are elements that are essential for successful transitions. Now is not too early to begin the process for change.

Looking ahead ... one of the biggest changes looming just over the horizon and getting ever closer ... is the coming Chinese industrialization. It is ... and will continue to ... affect this country and the entire world. I am amazed at the number of products currently produced in China and in the appetite this production has awakened in the Chinese.

Currently ... there are an estimated 6.4 billion people in this world of ours. The United States' population is a mere 300 million approximately ... while China's population is estimated at 1.3 billion. To put this in perspective ... about one fifth of the world's population lives in China ... while one twentieth of the world's population lives in the United States.

What does this mean for the world? What does it mean for the United States? What does it mean for the paper industry?

One fifth of the world's population is a very large potential market. Need I say more?

(Pause)

Additionally ... the subject of Chinese industrialization and economic maturation ... brings into the question the entire issue of globalization.

I recently read some remarks in the spring 2004 issue of Leadership for Manufacturers Magazine. The remarks were by Thomas J. Duesterberg, Ph.D., who is president and chief executive officer of the Manufacturers Alliance ... an executive development and business research organization for senior business management.

Here's what Dr. Duesterberg had to say on the issue of globalization as it affects American industry ... and I would definitely include the paper industry and the chemical industry in the grouping.

Dr. Duesterberg wrote:

“Much of the commentary today about unfair foreign competition and outsourcing of American jobs is misdirected. As Walt Kelly wrote in his *Pogo* comic, ‘We have met the enemy, and he is us.’ We cannot turn back the clock on globalization, and we don't need to.

“Our government bears a responsibility to make certain that our trading partners play by the rules, but our primary challenges are internal. We must reduce the unnecessary impediments we impose on our own productivity and invest more in people and technology to sustain our real competitive advantage: creativity and innovation. In the final analysis, it is America’s unrivaled capacity for innovation that defines our leadership and holds the key to our future.

“Trade policy is certainly an important element in making sure that manufacturers are able to compete on even terms in global markets. But the political discussion needs to include technology and structural cost issues because they play such a large role in determining competitiveness. It’s up to manufacturers to make sure that these issues are addressed in the campaigns of 2004.

(Pause)

I have always been concerned that sometimes the U.S. is a little slow in coming to recognition of things that are and could happen. It’s like the light bulb has to go on in our collective minds before we really get with it.

Now ... before the summer power brown outs ... is the time to switch that light bulb on ... for the paper industry and for the United States ... to pursue change ... and new niche markets.

Thank you.

