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BOARD CONVERTING NEWS™

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We Get Letters:

Another Price Increase Debacle

Dear Jim:

How silly, unsophisticated and arrogant we look. That's the thought that crossed my mind after the latest miscalculation of raising prices in a stagnant economy. I'm referring to the recent, disastrous decision to increase paper prices by \$60/ton. It seems that the executives of our largest producers have one eye on Wall Street, another eye on export and both eyes on paper making statistics - yet little thought about the impact of those actions on our customers. Price increases are not imperial fiats sent down from above. They must have substance and a rationale.

I think back to a conference call sponsored by Fisher International and Deutsche Bank that I was privy to at the end of June. The topic was a market assessment of the North American Containerboard producers.

I was struck by several parts of the discussion. The first thing that caught my attention was Mr. Fisher's take on exports: their long term reliability, the effect on domestic pricing and the way they are used. He viewed exports as "mainly a relief valve." The other was how long it took, during the conference call, before anyone asked a question about box consumption, box pricing and the discrepancy in financial performance among the top tier producers (over one hour into the call). It was as if the price of the box was immaterial, a circumstance that would surprise our customers.

I have always been amazed at the disconnect between the operations of the paper mill system and the converting plants. It's as if they operate in totally different worlds. The last three months have offered a crystal-clear view of that bifurcation.

If the forces for increasing paper prices are irresistible, as Chip Dillon of Credit Suisse suggests, then why didn't the proposed price increase on boxes sail through? Could it be that no one had the stomach to raise box prices a third time in a recessionary economy - particularly those most responsible for raising containerboard prices? Could it be a reluctance to put business on the line? Or possibly the imbalance in converting plants that continues to exist?

Why blame publications for an obvious failure of conviction? Why should Will Mies, Jim Curley, and Mark Arzoumanian bear the brunt of pressure and criticism? Why cede pricing power to another entity? Shouldn't shareholders be concerned when the price charged for the product is determined outside the influence of corporate decisionmakers?

As an Independent I have never really understood "farming out" the responsibility of pricing implementation. I don't think that anyone mentioned above volunteered for the job. Blaming industry publications is lame. It's a way to abrogate responsibility and point the finger elsewhere. I guess having a third party provide a platform for pricing creates a mechanism, but the logic behind that mechanism is flawed.

So here we stand. A failed increase that will surely lead to price erosion - as it historically has. I told my GM eight months ago that there would be an attempt to raise prices for a third time, it would fail and that the second increase would then be under unrelenting downward pressure. I have sat in on AICC Containerboard committee meetings. The frustration expressed has normally been reserved for the parochial views of the analysts. I believe that the reason Independents are so frustrated with the analysts is because the analysts have an antiseptic view of the box business. Where is their demand for rationalizing box converting operations? Industry executives and the people reviewing our industry need to get out and talk to real customers. The bulk of their reporting is made from an inherent bias revolving around the production of containerboard and the macro analysis of the statistics released by the mills. There is scant attention paid to the converting side (unused capacity, real box demand, outside economic influences) of the business, the side that ultimately dictates the success or the failure of any price increase.

If true integration is desirable, why does the industry behave in the fashion it does? Sending out Independents as "canaries in the coal mine" on pricing is ineffective, awkward, tiresome and in the end a failure. In the meantime our industry sends out confusing, muted and ultimately silly messages to our customers. An outside observer would think this whole process stupid, outdated and in urgent need of reassessment.

I am passionate about my business. I am disdainful of decisions made in New York, Chicago and Memphis that adversely affect my business. There is something awfully wrong in the way we go to market. The message we send is one of disregard and disrespect for our customers. In this recessionary environment, shouldn't we be thinking about how to sustain our customers, to ensure their longevity instead of penalizing them through our collective arrogance? What amazes me is that there is no embarrassment associated with this failed attempt. It's time to offer up something different. We can do better.

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