

New costing and profitability analysis software gives Neenah an accurate view of fixed and variable costs related to grades and assets

Profitable Decisions at Neenah

By **MONICA SHAW**

Delving into the details surrounding costs and profitability is no easy task, but it is especially challenging if robust information technology (IT) systems are not in place. Even companies with advanced enterprise resource planning (ERP) systems may find the level of detail in these applications insufficient to inform internal efficiencies that significantly impact the bottom line.

For Neenah Paper Inc (Neenah), understanding the costs and contribution margins associated with products and customers became a primary focus after the dust settled following its spin-off from Kimberly-Clark (K-C) in late 2004. The newly-formed company found itself in a “greenfield” situation with regard to its IT infrastructure when it was separated from K-C’s systems, leading to its purchase of an Oracle ERP system in 2005. Still, Neenah sought more details about its technical and fine papers products and customers than the ERP system could provide.

To capture and analyze more detailed cost and profitability data, Neenah purchased macs Controlling software as a complement to its ERP system. At the mill level, this software provides visibility into costs by cost center and consumption of resources used to produce individual product grades, providing information to support more effective cost improvement programs. For users at

The Technical Products side of Neenah Paper produces durable, saturated and coated base papers for markets that include filtration, graphics and identification, tape, abrasives, non-woven wall covering and other products



the business unit and corporate level, macs Controlling provides product- and customer-specific decision support information to inform actions that improve sales mix and optimize profits.

Building a Customized Infrastructure

Alpharetta, GA-based Neenah Paper is segmented into two businesses: Fine Papers and Technical Products. The Fine Papers segment manufactures writing, text, cover and specialty papers used in corporate identity packages, reports, labeling, stationery and high-end packaging. The Technical Products business produces durable, saturated and coated base papers for markets in more than 40 countries that include filtration, graphics and identification, tape, abrasives, non-woven wall covering and other products.

Since its spinoff, Neenah has undergone various changes aimed at transforming the company from a 50:50 pulp and paper business into a pure specialty paper and technical products company, with more focused operations and improved profitability. The first step in this transformation was the sale of the company’s large northern bleached softwood kraft (NBSK) pulp mill at Terrace Bay, ON, in 2006.

Also in 2006, Neenah sold half of its timberland holdings in Nova Scotia and used these proceeds to help finance the purchase of three European technical products mills from FiberMark. This acquisition almost tripled the size of the company’s Technical Products business and provided entry into new markets such as filtration and non-woven wall covering. Following the FiberMark acquisition, Fox Valley Corporation, owner of fine papers producer Fox River Paper Company, was purchased by Neenah in March 2007. With Fox River, Neenah broadened its brand portfolio in the premium fine papers market and more firmly established itself as a leader in this segment.

Most recently, Neenah sold its remaining NBSK pulp mill in Abercrombie, NS, completing its transformation to a specialty papers company. Neenah’s global footprint now is comprised of three German Technical Products mills and North American paper manufacturing operations, which include a Technical Products mill in Munising, MI, and Fine Papers mills in Ripon, CA, and Stevens Point, Neenah and Appleton, WI.

Along with implementing strategic changes, one of Neenah’s first orders of business was the creation of an IT infrastructure tailored to the needs of the new company.

“A key focus in the months following the spin-off was to decide our direction from an infrastructure standpoint and to choose an ERP system that would allow us to move off K-C’s HR, payroll and financial systems,” says Jim Mooney, Neenah’s vice president of IT. “K-C is primarily a personal care consumer products company, while Neenah has a wide variety of customer-specific specialty grades, so we were looking for applications to fit our unique needs.”

Neenah went through a detailed selection process in terms of systems strategy, eventually selecting Oracle as its ERP system from a long list of alternatives. While Neenah was pleased with the strength of the system’s financials, it knew from the outset that Oracle would likely need enhancements to support its business goals.

“We realized that our ERP system could not provide the level of detail we desired to conduct in-depth analysis of manufacturing costs, as well as customer and product profitability, facilitate good business decisions,” adds Bill McCarthy, Neenah’s vice president of financial analysis and investor relations. “The ERP system worked fine for external reporting requirements, which was an immediate priority as a public company, but we needed more comprehensive cost accounting information. Consequently, we started looking at whether

to customize the ERP system or purchase a best-of-breed costing system alternative.”

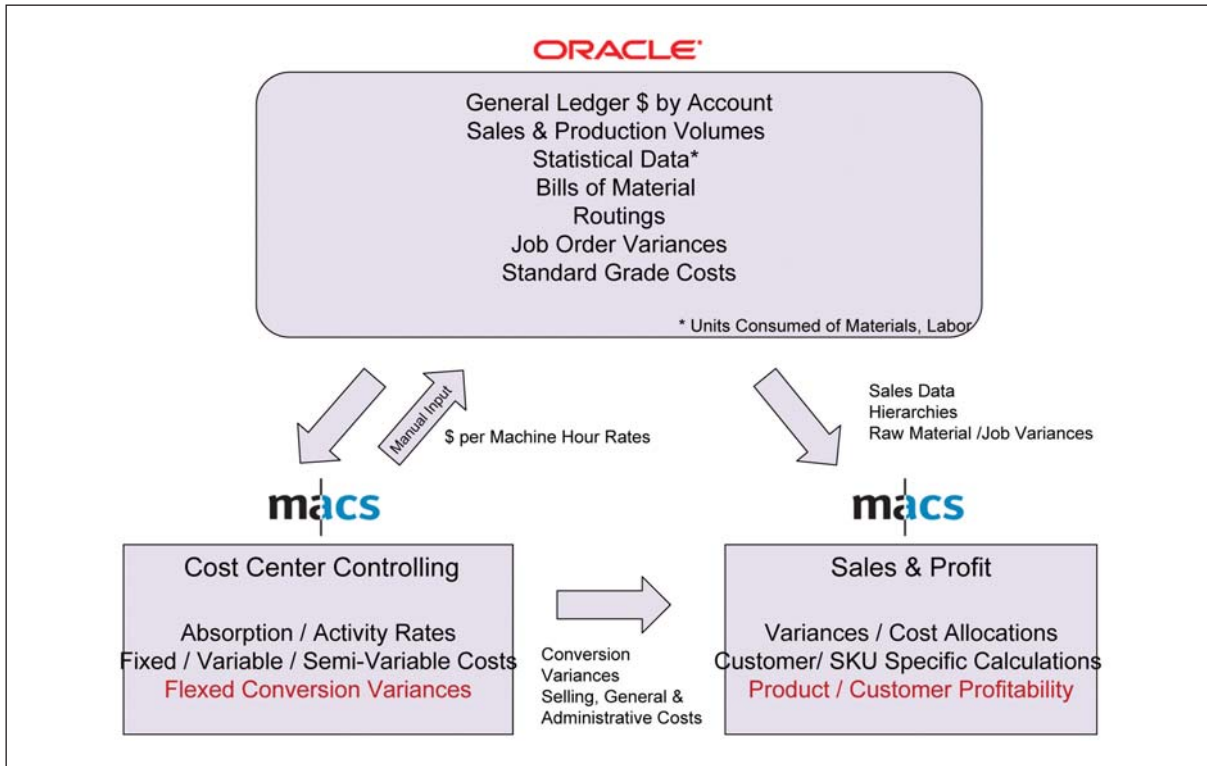
At the suggestion of a consultant, Neenah contacted macs Controlling out of Pittsburgh, PA, and found that two of its software modules would support the company’s initial cost and profitability data analysis goals. At the corporate level, macs Controlling’s Sales and Profit (S&P) module would provide income statements and contribution margin data by product and by customer to help Neenah focus on the most profitable of each. At the mill level, macs Controlling’s Cost Center (CC) module would support allocation of support cost centers to primary cost centers, including segregation of costs into their fixed and variable components. It would also let Neenah compare actual usage to targeted levels for labor, energy and other costs, based on actual production levels.

“Macs Controlling tells us how much labor and utilities per unit of production we should have used versus what we actually used,” says Mark Arrieri, controller for Neenah’s Technical Products mill in Munising. “This ability to ‘flex’ cost using quantities shows us how we are actually performing at the variable cost level, and the macs software will determine variations in usage due to either quantity or price.”

The macs Controlling software installation began at

FIGURE 1.

Neenah’s transaction flow from the Oracle ERP system to the macs Controlling costing software



Neenah's North American mills in 2007, following the roll out of the Oracle ERP system. Neenah implemented a full suite of Oracle's ERP modules, including manufacturing, distribution (with a warehouse management system), customer service, advanced pricing, procurement, costing, financials, human resources, time and labor, and enterprise asset management.

Making a Difference at the Mill Level

Each of Neenah's mills has defined cost centers related to processes or equipment. At the end of every month, Neenah uses macs Controlling's CC module to compare the flexed budgeted costs of labor, utilities and other conversion costs with the actual costs incurred. Cost center managers work with other responsible parties, including the mill manager and the finance team, to analyze these results, looking for trends, exceptions and areas of opportunity for each center.

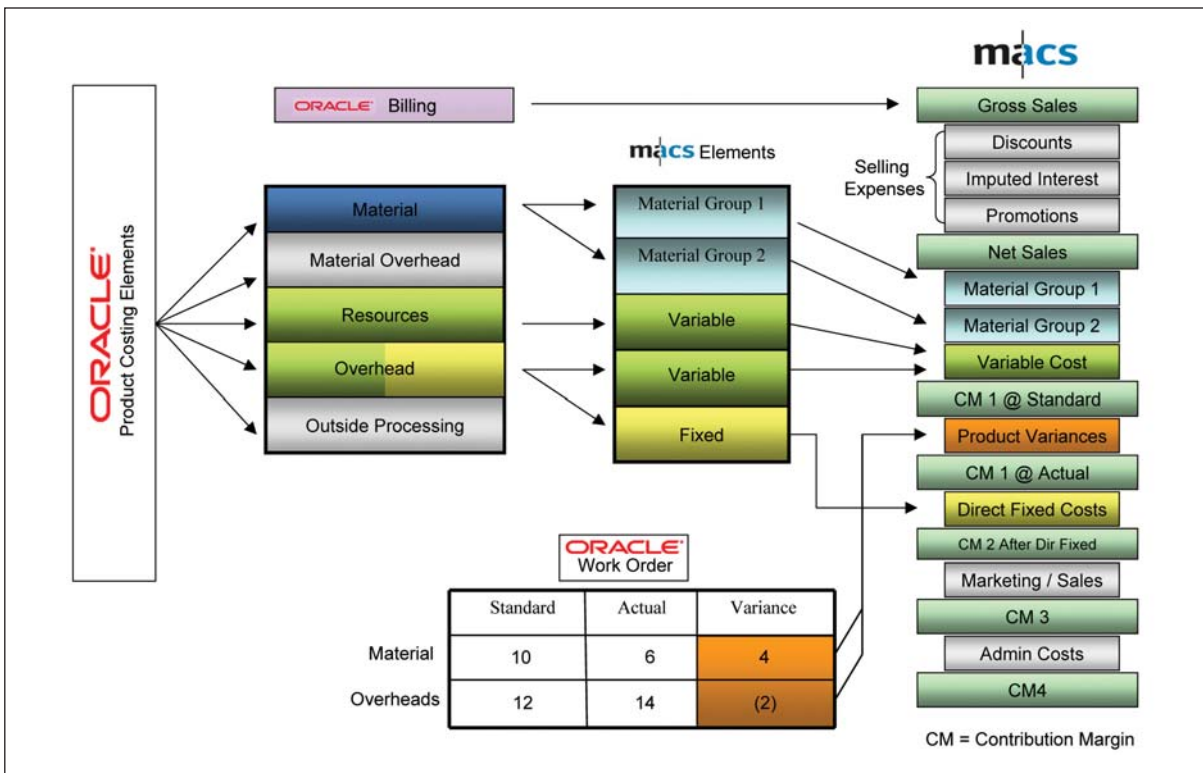
"We use macs Controlling as the primary tool for internal communications with cost center owners, both within the mill and for the few cost centers outside it," explains Arrieri. "With it, we can track the costs associated with specific assets, as well as develop grade costs. For example, we can use the software to determine how grades within a product line are performing versus standards."

Because of its level of detail and accuracy, macs Controlling provides the ERP system with some of the cost data it uses for inventory valuation purposes. The ERP system requires resource (absorption) rates to calculate standard costs (Figure 1). The resource rates are calculated within macs Controlling, which splits them between fixed and variable components, and then entered into the ERP system.

Within macs Controlling, there is a consistent value flow from support departments (for example, utilities) to the primary departments (paper machines) based on how quantities flow through the model. The value flow maintains the fixed/variable relationships, effectively supporting accurate contribution margin analysis of customers and products (Figure 2).

Neenah has used the macs Controlling software a little more than a year, and Arrieri reports that the mills are using its data to create more effective improvement programs aimed at machine efficiency. In addition, the data has prompted product redesigns that have increased profitability at the customer and grade level. Also, with the availability of data showing profitability per machine hour, Neenah can now schedule paper machines in the most effective manner to balance customer needs and business objectives.

FIGURE 2. Mapping of available resources within the Oracle ERP system to macs Controlling data elements enables creation of a customer and product contribution margin statement



Supplying Strategic Sales and Profitability Data

In addition to addressing needs at the mills, the company's goal was also to accurately understand customer profitability. With macs Controlling's S&P module, Neenah views contribution margins both by customer and by product. The software has proven a popular tool for many at the business unit level, from senior executives down through disciplines like sales, marketing and finance.

"Without question, macs Controlling has helped us understand our pricing and cost structure in a way that we never could have without the product and customer visibility it provides," explains Mark Kinnaman, senior business analyst for Technical Products at Neenah's headquarters. "We had made assumptions built on historical pricing agreements with certain customers

Neenah's Fine Papers segment manufactures writing, text, cover and specialty papers used in corporate identity packages, reports, labeling, stationery and high-end packaging



based on historical mill costs that were no longer valid. We thought some products were doing well and found out otherwise, so we've taken initiatives to improve their profitability with information we've obtained from the macs software."

In addition to spotting problem products, Neenah can use the S&P module to assess impacts on profitability from product redesign and new product introductions. Neenah is using macs Controlling to "set priorities and drive business direction," according to Kinnaman. As it goes through the 2009 budget cycle, Neenah will consider grade and customer profit levels forecast by the S&P module for the year to determine what areas require emphasis.

"We are very committed to the S&P module as a business analysis tool and have aligned our business on using it," says Kinnaman. "We have a more than a year's worth of informative data built up in macs Controlling, and we've really started to see its benefits. We can now determine whether we should try to make a grade more profitable, consider a price increase or perhaps walk away from it altogether."

Moving Forward with Meaningful Data

Overall, says McCarthy, macs Controlling has helped Neenah leverage the investment in its ERP system and the ERP system data itself in a cost effective manner. It has also reinforced awareness among everyone who touches the system that data entered into the ERP system must be as accurate as possible so as not to have a negative impact within the costing software. Regarding user acceptance, McCarthy says the costing software has been "very flexible and easy to use."

As for future plans, Neenah is evaluating installation of the macs Controlling module for product costing to gain better insight into raw material usage, as well as utilizing macs on top of the SAP ERP system at its Technical Products mills in Germany.

"Macs has the flexibility to give us better global visibility and consistency in reporting," describes McCarthy. "In addition, it can help us with forecasting and budgeting more efficiently."

According to McCarthy, macs Controlling has already delivered an attractive return on investment by helping Neenah make better business decisions.

"We remain excited about finding new ways to utilize the system to deliver additional improvements for our business results and processes," McCarthy says. **P&P**

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