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Dream Numbers

by Roger A.P. Fielding, BENCHMARKS

Addressing the AEC Management Conference in 2002, Thomas J. Noon, speaking on the subject "Efficiency in Operations," posed the question: "How do you stack up?"¹

Focusing on the aluminum extruders' financial performance, Noon set out to show why "benchmarking" is important; how to use benchmark measures to better control an extrusion business and, how to use the AEC "Operating Ratio Survey" to better understand one's own extrusion business. He referred to historical, and then to recent performance data to emphasize the advantages enjoyed by what he referred to as the "Industry Winners."

Taken from the above presentation, the following data refers to the average performance of the survey's "High Profit Firms:"

- Scrap percentage (inclusive of returns): 24%
- Receivables (average receivables/sales per day): 50.4 days
- Net Operating Income as a % of Total Revenues: 8.6%
- Manufacturing Costs (including billet) as a % of Total Revenues: 78.9%
- Net Operating Income (as a % of Total Assets): 7.3% c.f. 18.1%

Other numbers quoted in the above presentation of AEC data—while being of general interest—were, because they varied little between the AEC average and the "High Profit Firms," of little comparative use.



For example, when expressed as a % of Total Revenue. High Profit Firms first, AEC average second:

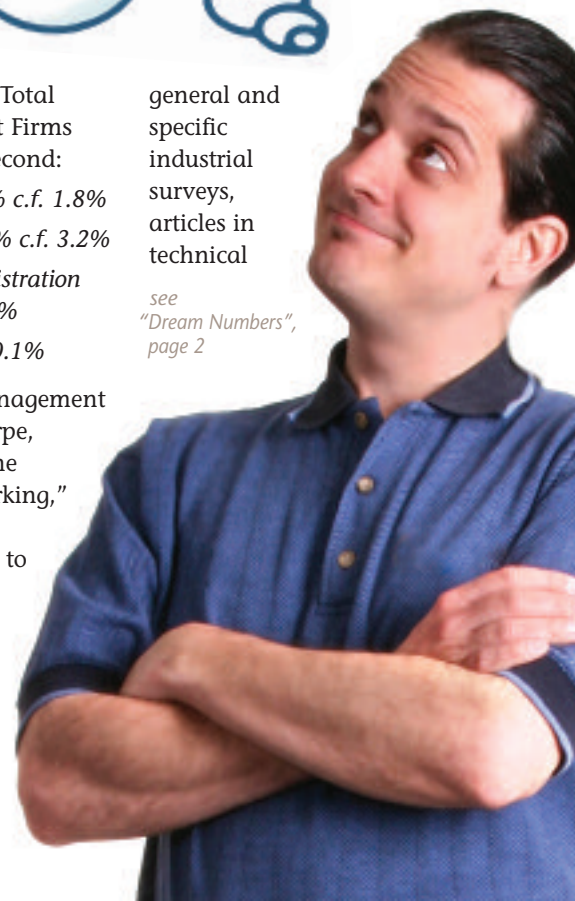
- Delivery Costs: 1.7% c.f. 1.8%
- Selling Expense: 3.6% c.f. 3.2%
- General and Administration Costs: 6.2% c.f. 6.9%
- Bad Debts: (same) 0.1%

At the 1996 AEC Management Conference, Jim Sharpe, again speaking on the subject of "benchmarking," emphasized that benchmarking is not to be compared with stealing—or for that matter, what is known as "Competitive Intelligence."² Stealing business

information or data from competitors is just that—stealing. However, Competitive Intelligence—using data which is in the public domain to construct a "picture" of a competitor's business, or a critical aspect of that business—is a widely practiced and perfectly legitimate activity. In this case, suppliers' brochures,

general and specific industrial surveys, articles in technical

see "Dream Numbers", page 2



Lawrence R. Difatta
President of Granco Clark



One of the articles in this newsletter touches on an issue I think is worthy of more discussion: what importance does—or should— “the relationship” play in business purchase decisions?

It’s an issue that is treated very differently, depending on the industry, company, even culture. There are countries in which such decisions are made exclusively on the basis of relationships. In other situations, little else matters beyond the lowest bid to meet a given specification.

Perhaps we’re fortunate here at Granco Clark, in that most of our products involve a substantial investment— the type of purchase decision unlikely to be affected one way or another by a box of apples during the holidays.

But that doesn’t mean for a second that relationships aren’t important. Quite the contrary— when the decision involves a substantial investment, the relationship goes a long way toward establishing the customer’s trust and confidence that the supplier AND the equipment will meet his or her needs.

At Granco Clark, our customers are far too sophisticated to let anyone “buy” their allegiance with gifts or entertainment. But we DO think that there is value in showing our customers the kind of people we are, and that we appreciate our relationship with them.

So on occasion, we might suggest a round of golf, or a nice dinner. We figure the better they get to know us, the more they’ll realize the sincerity of our commitment to helping their business, and to making sure our products do what we say they will.

You can’t “buy” business with a round of golf or a fancy trip. But you can help build confidence, and that is a valid part of the purchase decision. Especially when you’ve got the products and service to back it up. And I’m happy to say our track record indicates that we do.

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periodicals and local newspapers, annual reports, government statistics, and credit information legitimately obtained, all combine to enable the analysis of the capabilities of a competitor’s new or existing production facility. On the other hand, benchmarking, which relates to the compilation and comparison of data on specific aspects of a business operation, employs data which is usually obtained from willing collaborators within an industry, from Industry Associations, or through contacts with appropriate non-related businesses. Sharpe cited the following subjects and the possible sources for such data:

- ISO 9002 information, from a sheet metal fabricator
- 24-hour working, from a circuit board manufacturer
- “Pull systems,” from an assembler of wire cable

And, he implied that:

- Health and safety data and related information is (usually) shared without restriction. For example: The Aluminum Association report on explosions in aluminum casting operations.

Using published (and what some might refer to as “old” data) it is possible to compile benchmark numbers for extrusion operations such as those which are summarized below³:

- Safety—no accidents—the plant is intrinsically safe
- Productivity (all employees)—AA6xxx alloys—over 800 thousand pounds (400 metric tonnes) per man-year (AA7xxx alloy productivity might be lower.)
- Recovery on common AA6063/6060 alloys—approaching 90% (Medium strength AA6xxx and AA7xxx alloys will be lower.)
- No die trials
- Die changes—up to 10 die changes per hour
- No returns

But, even if “old,” when these numbers appeared in *Light Metal Age* magazine, one reader wrote in, calling them “Dream Numbers.” However, as was pointed out, not only were they actual numbers when they first appeared in print, they are undoubtedly being exceeded—somewhere—today.

It is the responsibility of every operating company to know where they stand vis-à-vis the competition. General Electric’s Jack Welch established the following criteria for success: “If you’re not number one or number two you’re history.”

The series of five “World Wide” articles entitled “Improving Plant Performance,” which appeared in 2005, sets out the steps to achieve benchmark performance in extrusion operations: Measure, Understand, Control, Improve, Optimize then Automate! ●

References

- 1) Noon, Thomas J., “Efficiency in Operations: How do you stack up?” AEC Management Conference, Chicago, 2002
- 2) Sharpe, Jim, “Benchmarking,” AEC Management Conference, Chicago, 1996
- 3) Fielding, Roger A. P., V. I. Johannes and P. Howard Fielding, “Extrusion Productivity,” *Light Metal Age*, May/June 2005, Volume 63, No.3, pp 6-19

Not How to pick an extrusion equipment provider.



It's almost impossible to overstate the importance of buying the correct equipment for your new or existing extrusion line, and of buying it from the right supplier. The wrong equipment virtually ensures that your system's productivity and profitability will fall short of your potential capabilities.

The wrong supplier can be equally costly, offering you little (or inaccurate) guidance in your decisions, and little support after the fact, leaving you struggling to get even acceptable, let alone, maximum performance.

But sadly, it happens. And that's because as human beings and business people, we are all subject to distractions and overtaxed schedules that leave us short on "think time." So we let other things affect our judgment.

"Bells and whistles" syndrome.

Technological advancement is critical, and we at Granco Clark have pioneered more than our share of the extrusion technologies that have become industry standards. But many times, a customer will be impressed with a supplier's "cutting edge" developments that are untested, or in many cases have very little to do with the system that customer will purchase.

Think of buying a car. Does a company's newly-hyped sports car make its pickup truck a good choice? And—other than in comical commercials—does a "hemi" outweigh more cargo space in the family minivan?

If you pick a system because of a company's "bells and whistles," make sure it's not just a lot of noise.



Choosing the company over the Company.

In today's business world, relationships are critical. And for purchases that can be well into the six and seven figures, there is no substitute for the trust that is built on long-term success and fair, solid dealings.

But those important relationships are established through doing business over time, and cannot be forced or "purchased" with instant fellowship.

It's easy to see the appeal of a nice little vacation attached to a logical business trip. And there's no reason a factory tour or a plant visit to "check out equipment" can't be combined with a little socializing.

But make no mistake—the vacation memories will fade, and those engaging dinner companions may be nowhere to be found a year or two later when your extrusion productivity is falling short of your expectations.

Thinking that low price = low cost.

That's what bidding is all about, you say? Well, yes and no. For a low-priced commodity, the numbers speak for themselves. But in something as complex as an aluminum extrusion system, that's not quite true. While the basic specs are the same, of course, you generally wind up comparing apples and oranges, not to mention the odd avocado in the process.

For starters, a claimed performance spec is only as good as the company behind it. Enough said. (And guarantees mean little once an inferior quality item is installed on the floor of your plant.)

Maintenance is also a huge issue. Frequent breakdowns—especially when coupled with a supplier who is not as responsive to the

situation as you might like—will quickly cost you more money than you "saved" at system purchase. (And also cost you a few grey hairs, if not customers, along the way.)

Other questionable criteria can factor into the decision, too. These include "we've always bought from them" (all habits aren't good ones) and "they can get it here quicker" (a couple extra weeks of the wrong equipment don't make it the right equipment.)

The truth is, choosing the proper system equipment and supplier is hard work when it's done the right way. But as your productivity for years to come will tell you, it's money well spent.

A better way to buy.

A few years back, this newsletter carried a series of articles by Roger Fielding in which he outlined a very disciplined approach in choosing the correct extrusion equipment for your current needs and future plans.

In Fielding's treatise, he identifies the writing of specifications as perhaps the key determinant of ultimate success. To that end, he suggests a careful series of steps to achieve the true result desired, which is normally a measure of enhanced productivity rather than the addition of a particular piece of equipment. To make sure that happens, Fielding suggests that you:

1. List key productivity measures and your current performance against them.

see "Decisions", page 4

New Equipment Installations

North America

MI Metals

Millen, Georgia, USA

MI Metals, one of the largest window and door manufacturers in the U.S., shows confidence in Granco Clark with another equipment order for one of its facilities. They will be adding a 49-foot long Single-End-Flow Age Oven in their Millen Plant. The oven requires very little maintenance. Its high-volume air systems result in quicker heat-up and excellent temperature uniformity.

MI Metals recently purchased a new billet heating system from Granco Clark to upgrade an existing press line.



The Granco Clark Single-End-Flow Age Oven.

Florida Extruders International

Sanford, Florida, USA

Florida Extruder has selected Granco Clark's billet heating system for its new 9" press line.

The billet heating system will consist of a model 812-35-3 "Hot-Jet" Log-heating Furnace with the ability to handle log lengths up to 24.5 feet and a model 812 Hot Log Saw to process the logs and provide the exact length billet required for every press cycle, thus reducing scrap. A suitable transveyor will deliver the cut billets to the press loader.

Florida Extruders International, Inc., headquartered in Sanford, Florida, was formed in 1989 and is a low cost, vertically integrated, aluminum extruder. The company manufactures windows, sliding glass doors, and patio screens, and also distributes building products.

Kaimei Shindo

Kyoto, Japan

Kaimei Shindo has selected Granco Clark, to supply them with equipment needed for its expansion into the Aluminum Extrusion market within Japan. Kaimei Shindo ordered a 69-40-4 "Hot-Jet" Log Furnace, 79 Hot Log Shear, shear to press transveyor, an end-flow age oven, and a three chambered Multi-Compartment Die Oven.

The equipment will process the logs and provide the exact length billet on every press cycle, thus reducing scrap. The transveyor will deliver the cut billets to the press loader. The Multi-Compartment Die Oven features multiple, individually heated drawers, each capable of holding several dies. This design eliminates the costly temperature contamination that can occur with the mixing of cold and heated dies.

Decisions from page 3

2. Establish a benchmark, as best you can, from relevant industry data.
3. Use those numbers to describe your objective.
4. Articulate clearly the numbers that must be achieved if the project is to be successful; use specific delivery rates for particular alloys with predetermined recovery rates and manpower needs.
5. Deliver these objectives to leading industry suppliers, and allow them

to determine the best way to achieve them.

Obviously, the proper evaluation of the proposals received is extremely critical, as well, and requires diligence in making additions and deletions in order to to put all proposals on the same footing. And the ultimate decision must also take into account less tangible factors, such as parts availability, maintenance, and after-sale support.

Though perhaps more difficult to quantify, comparing the relative merits

of each potential supplier along these dimensions should encompass industry reputation, testimonials from recent customers, etc., and not provide an opportunity for "personal preference" to outweigh the Cost-Benefit Analysis to this point.

You can read Fielding's series in its entirety at www.granococlark.com. Just click on "Newsletter by Topic" under the "News" header, and look for "The Acquisition of Modern Aluminum Extrusion Systems." ●



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