

Planning for success in new plant construction or facility upgrades

As the economy begins to rebound and concrete producers revive plans to either construct new plants or expand operations, a reevaluation of methods to accomplish these goals is in order. Today's capital costs and the need to maintain an adequate cash position demand that producers strive to both formalize the process and fully understand their operational needs.

Extensive experience in undertaking such evaluations confirms that a high level of success depends on completing a thorough assessment of the market for the product, developing proforma financial statements, and building (or expanding) facilities to meet potential short- and long-term needs as best determined through examination.

Getting swept up in a buying frenzy is a temptation: What are the latest machines? Who has the faster cycle times? What is the newest technology? While knowing what equipment manufacturers offer is important, understanding what customers want and how much can be sold is even more crucial. Overinvesting in a machine or a plant not in alignment with actual production needs is a fool's mission.

Any plant, whether new or expanded, faces two possible outcomes: outselling capacity or underutilizing an expensive asset. Since neither alternative is acceptable, a solid market evaluation should be completed by either internal staff or an outside firm specializing in such analysis. The evaluation should not be conducted in a vacuum, i.e., without direct input from current and potential customers.

Most effective is a "need-based" analysis, identifying what customers perceive as critical to their success, rather than emphasizing what is available from competitors. Looking for information that will help leverage investment and build business both now and in the future is key.

After the market evaluation has been completed, it's time to crunch some numbers. On the sales side of the equation is newly acquired data regarding specific products to be offered, how many of each will be needed over a specific period of time, at what price they can be sold, and the target audience.

For an existing plant, all necessary manufacturing and cost data should be on record. In the case of a new facility or product line, engaging an expert to provide guidance and more accurate cost and throughput estimates is recommended. A realistic approach is critical to project payoff.

Every operation entails a unique set of variables that need to be considered and established at the project's outset. In designing a wet cast or stone veneer plant, for example, failing to fully evaluate and specify the mold material, mold size, and carrier dimensions before determining a plant budget could have disastrous consequences. Each of these factors plays a significant role in the kind of product the facility can fabricate and the speed and efficiency of that operation.

Another often overlooked item is ancillary costs, which can add up to serious dollars, sometimes delaying or eliminating profit projections.

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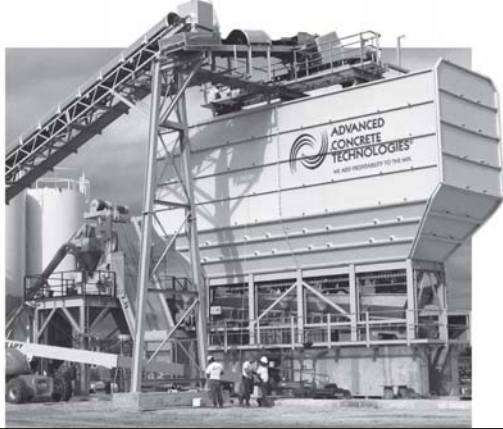
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From a cash standpoint, bypassing these items could result in a potentially significant—and shocking—shortfall in proposed capital budget.

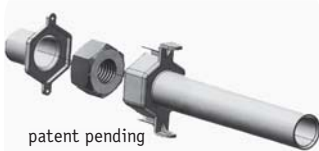
Having determined project parameters, ranging from products to sales to manufacturing, planners are in a position to create a solid proforma P&L to estimate net operating income and return on investment. If the result is deemed acceptable and fits the scope of the organization's commitment, then moving to the next stage involves seeking a request for proposal.

Given the vast array of critical information that a producer can offer at this step in the process, most equipment manufacturers will respond eagerly. Their engineering teams will be able to quickly assemble plant layouts and build-on options for later expansion based upon the data provided. Exhaustive preparation thereby preempts the need for countless meetings to review all options and their associated costs and benefits.

If, as the old adage states, "time is money," frugality requires not underestimating the cost in time invested by the management team assigned to the project. In view of widespread personnel cutbacks, managers likely are wearing multiple hats. Thus, management time is finite, and streamlining the process can only contribute to profitability.

In the end, a quote will be obtained for equipment that best suits a producer's needs and makes the best use of capital expenditure. Concurrently, the machine supplier will have gained a valuable and educated partner.

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