

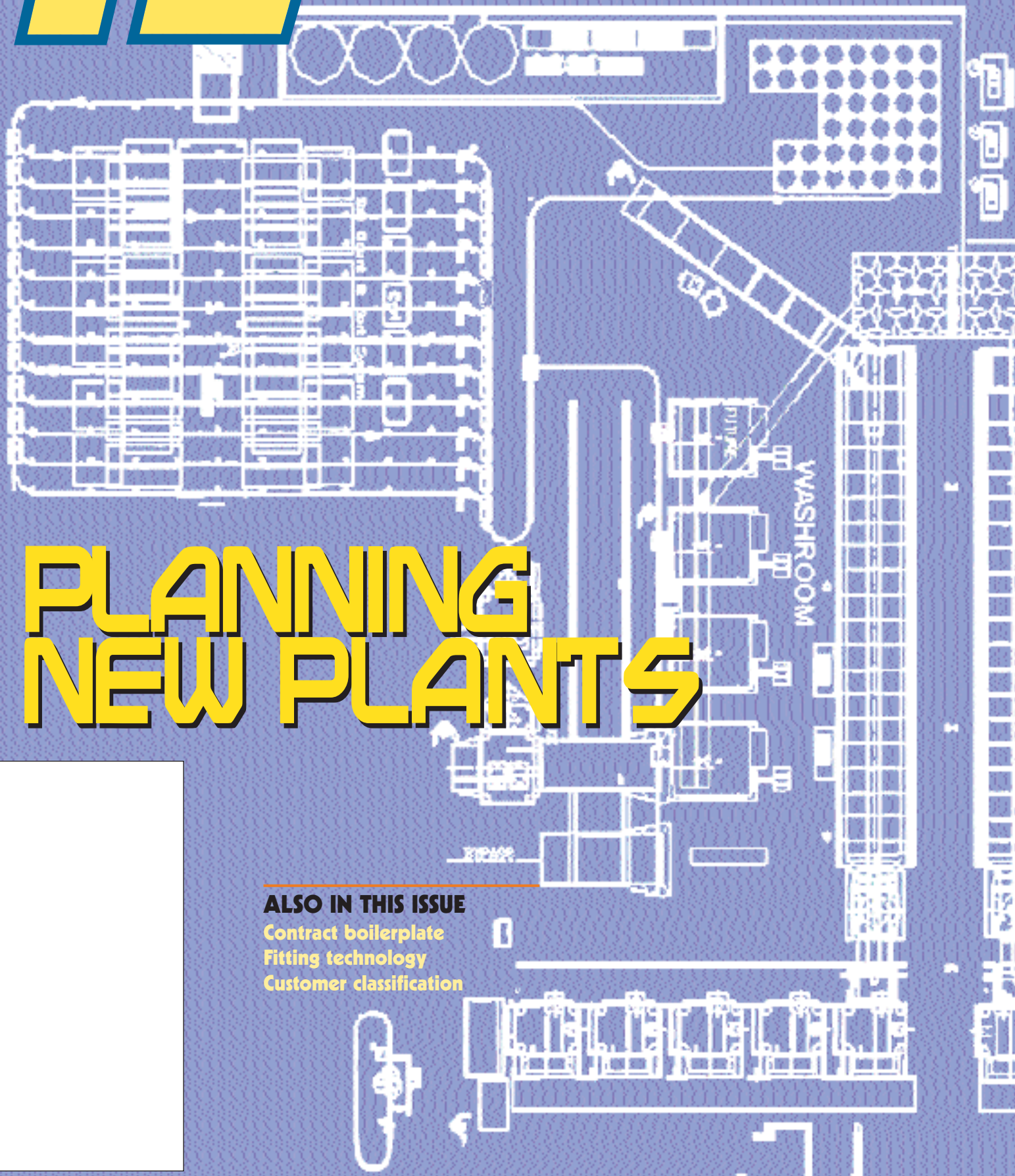
17
MAY 2005
NEW PLANT PLANNING
CONTRACT BOILERPLATE
FITTING TECHNOLOGY
CUSTOMER CLASSIFICATION
RICHARD STEINER
SPUN POLY MICROFIBER

IL

INDUSTRIAL LAUNDERER

FOR THE UNIFORM & TEXTILE SERVICE INDUSTRY

MAY 2005



PLANNING NEW PLANTS

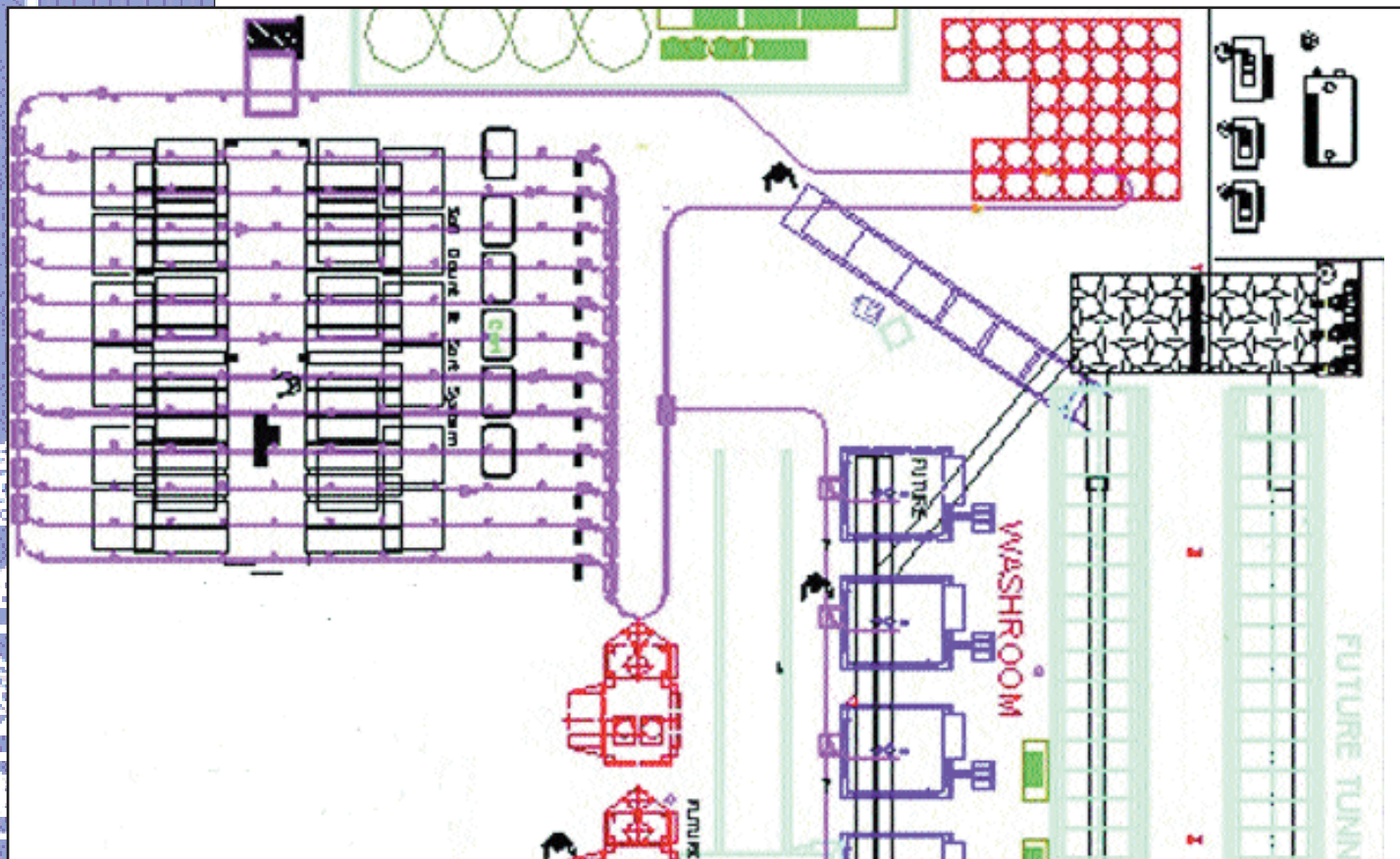
ALSO IN THIS ISSUE

Contract boilerplate

Fitting technology

Customer classification

No more build it



Industry operators are taking a harder look at constructing new processing facilities, but when conditions are right for these, they're the preferred alternative to renovation.

First of a two-part series concluding next month

New laundry plants are likely having an impact on your business today. Your company may have built one. Or a competitor might have.

Then again, you may never set foot in one. And one might never go up in the local market in which you work. Still, you'll always be affected. Each company's or chain's decision to build—or not—guides their operations and thereby influences the competitive scenario in their markets.

To comment on the industry-wide impact of new plant construction, *IL* assembled a panel of three:

■ Gerard O'Neill, president and CEO, American Laundry Systems, division of E&O Mechanical, Haverhill, Mass. The company provides project management, plant design and layout, and installation services, as well as consultation in energy systems and mechanical engineering.

■ Ed Kwasnick, president and founding principal, Turnkey Industrial Engineering Services, Inc., Charlottesville, Va. Turnkey provides facility planning and process improvement

and they will come

services, handling new construction and upgrades and improving current operations' efficiency.

■ Larry Patton, plant operations director, UTSA, Arlington, Va. He joined the association in 2002 after eight years with Omni Services, Culpeper, Va., the 90-plus location industrial laundry chain now part of Cintas Corp., Cincinnati. He was Omni's VP of engineering, fleet operations, and corporate safety.

In the following interview, they offer a laundry operator's bottom-line perspective on the creation of new facilities.

Do you consider this a busy time for building new plants? Why or why not?

O'Neill: Yes, this is an extremely busy time for so-called large scale projects in the industry. The reasoning behind this is that interest rates are starting to rise, prompting the move for larger capital expenditures. And it is a Clean Show year and some European-based equipment vendors (not all) are discounting or making a big push this year with their products.

Kwasnick: Yes, it is a busy time. Many companies have put major capital projects on hold during the past five to seven years, waiting to see what is going to happen with the economy. However, they can only wait so long.

Now that the economy is strengthening, and business is improving, these companies need to prepare for the road ahead. And that means handling increased production in a more efficient and cost effective manner. In many cases, existing facilities will not provide the answer and a major renovation or construction of a new plant is needed.

Patton: For the largest operators, it is always a busy time to build or renovate plants. There are so many demands for help and support from the corporate level and plant level. Industry suppliers can be backlogged for some time period. So projects have to get into the queue.

Do you see more operations becoming more amenable or suitable for multi-shift operations, thereby decreasing the need for more plants?

O'Neill: Multi-shift plants come with their own issues: wear and tear on machinery, decreased productivity on later shifts, etc. The availability of exist-

ing buildings has increased dramatically in the last two to three years. The need to build new (from the ground up) is no longer the way to go.

The costs of steel and various construction expenses have increased dramatically in the last 12 to 18 months, so finding an existing building and retrofitting it is a very attractive option at this time. Steel prices are going in one direction only, so a delay of six to 12 months can mean 30 or 50 percent increases in steel building costs alone.

Kwasnick: Yes, more companies are moving to multi-shift operations to reduce building and equipment costs, thereby reducing their up-front capital investment. This also allows maximum production output per dollar invested.

Patton: The myth that laundries should only run one shift is now gone. The hardest shift to staff and maintain is from 3 to 11 p.m. because family time is almost nil; 11 p.m. to 7 a.m. is easier to staff and can be as productive. We used to be told that when the management was out of the plant, the employees could get more work done!

Other industries have run two and three shifts for many years without problems. In our business, it is just a matter of changing supervision and management's mindset. Our companies are moving toward multi-shift operations; it makes economic sense from an asset utilization standpoint.

Do you think that today, in some situations (locations) in which plants might have previously been built, that branches/depots/service centers are established instead?

O'Neill: Branches, depots, service centers, etc. are an option when the "mother" plant can gear up to handle the extra load they create. An existing building is located for the purpose of route makeup and storage. This is fine, as long as the mother facility can produce the work needed.

Kwasnick: It depends on the strategic vision of the company. If a company decides to invest in very large processing plants, they will require more service centers over a larger geographic area to feed work to the main plant. If they decide to build small or medium sized processing plants, they will build more of these facilities and require a smaller number of service centers.



Designing with a 30 percent growth factor used to be an acceptable goal. Today, 50 percent is more the norm.

Gerard O'Neill, American Laundry Systems



If a company's target market has changed and their customer base is a long distance from their plant, then a new plant closer to the customer base will reduce delivery time and costs.

*Ed Kwasnick,
Turnkey Industrial
Engineering Services*

Patton: Some companies are building larger processing plants and serving more depots or service centers than in the past. Service centers can be much closer to customers than a mother plant. We always wanted a mother plant to be two hours away or less.

When you size a new plant today, do you allocate as much space for growth as you used to? Or is there more emphasis on making greater use of the assets? Do you figure you're going to run the same equipment longer each day, so you don't allocate as much space as you used to? But you still want plenty of extra space to store goods, right?

O'Neill: Designing with a 30 percent growth factor used to be an acceptable goal. Today, 50 percent is more the norm. The option is and has always been there to add shifts or extend the work day, etc. However, you still have to deliver these goods. You cannot deliver at 1 a.m., so the facility needs more storage space.

It's a Catch-22 situation: extend the hours and increase the storage space allotted in the plant (that should be for production equipment). Now other issues come into play. Is the "cube" being used to its fullest extent? Is the plant flow inefficient due to excess storage needs? The ultimate answer: find another building when you are ready!

Kwasnick: When we size a new facility, we provide space for 10 years of growth. That space might be constructed up front, or added to the plant at a later date. Either way, it is designed into the facility from the start.

However, the actual amount of space allocated for future growth is getting smaller, just as new plant footprints are getting smaller. Because there is more emphasis on multiple shifts, maximizing equipment output, and using cubic space in the building more efficiently, new plants are producing more poundage in less square footage than old plants.

So, we provide just as much growth capability now as we did 10 years ago. However, due to design and technology improvements, we require less space for the same amount of growth.

Patton: Our basic new plant footprint was approximately 50,000 square feet with 5,000 square feet of office space for a 300,000-pound-per-week operation running approximately 20 hours per day. We focused on using the cube.

I would probably leave more space today, in strategic areas, than 10 years ago, because things continue to change and I would hate to have failed in planning the facility for growth in different markets.

Why would you ever need to build a new plant as opposed to expanding an older one? Because the building itself

(infrastructure) is just too old to function anymore? Or the lot is too small to accommodate expansion? Otherwise, couldn't you deal with every filled-to-the-gills problem just by putting up a building addition?

O'Neill: Lot size or existing building limitations are some of the main reasons for "new building" projects. A lot can be done with the existing facility, but here's a big issue: the cost of expanding and then retrofitting an existing plant can be as much as 75 percent of finding an existing building and starting anew.

So, with a renovation, at the end of the day, you have a plant that literally got turned around and now has more capacity and room to grow. But the headaches and loss of production—there is always some loss—may not have been worth the effort. If you can do something offsite and allow the existing facility to run as if nothing is happening, that is the way to go.

Kwasnick: Sometimes existing plants provide certain inherent constraints that severely impede production improvement. And these constraints are extremely difficult or impossible to overcome.

For example, an existing facility might have 30-foot spacing between columns and 14-foot-high ceilings. The low ceiling makes it very difficult to install overhead monorail systems, garment trolley systems, stacked garment sorting systems, or other production systems that require additional clear height.

In addition, the column spacing makes it difficult to install ironer systems (especially wide ironers), automated washroom equipment, and other equipment due to the limited space between structural columns.

To change the column spacing and raise the clear height of the building would be cost prohibitive. So, construction of a new facility becomes more cost effective.

If a plant is landlocked and cannot build an addition, new construction can provide the answer. Also, if a company's target market has changed and their customer base is a long distance from their plant, then a new plant closer to the customer base will reduce delivery time and costs.

Lastly, a new addition to an existing plant will not provide relief for every filled-to-the-gills problem. What if the plant can only build to the north, but they need additional washroom capacity, which is on the south end of the building? By building to the north, you do not provide space where you really need it.

If you decide to build an addition and relocate the washroom, the capital costs increase exponentially, because you have to modify the process piping, floor trenches, and other process infrastructure. Suddenly,



We always considered growth market areas when deciding where to put a new plant and possibly taking business from a neighboring plant that may almost be at capacity. Now it probably centers around existing business and consolidation of

Larry Patton,
UTSA Plant Operations

the cost of a new plant is only marginally more expensive, and you get a custom built facility to meet your exact needs with planning for future growth.

Patton: Earlier plants generally were built smaller with less head room. This made the plants have a bigger footprint. Now using the cube allows processes to be in the ceiling space, saving floor space and dollars.

When you consider renovating an older facility, you find the infrastructure may not be able to handle the growth and the cost difference for new construction may not be that great. Piping systems are probably too small in size and capacity. Plus, you have to keep working and processing product as you renovate and that makes the scheduling really tough.

However, building additions can work if the renovation can be accomplished in phases and the end product can yield good work flow.

Have we seen the end of building new plants speculatively in a market, e.g. organic growth is not as promising as it once was? In other words, aren't new plant projects driven entirely by existing business in a given location?

O'Neill: The "build it and they will come" attitude is and has always been a risky one. Building a plant on speculation is extremely risky, but if commitments on business are in place prior to building, it is a less stressful experience. Sometimes it takes a little roll of the dice to be successful, but an educated roll of the dice is just smart, good business.

Kwasnick: The high cost of a new plant makes speculation too risky. So, the "build it and they will come" concept is no longer valid. You better do your homework to make sure you can cover your investment *before* you build that new facility.

Patton: There will definitely be less speculation in building new plants. We always considered growth market areas when deciding where to put a new plant and possibly taking business from a neighboring plant that may almost be at capacity. That would provide growth opportunity for both facilities and an existing business base for the new plant. Now it probably centers around existing business and consolidation of facilities.

Suppose a chain moves into a market through acquisition and doesn't want the plant. But they don't have anywhere else to do the work. Do they immediately plan a new one? Is this scenario less frequent today, because they already have a presence in so many markets where they make acquisitions?

O'Neill: If the existing facility is beyond hope (it's got to be pretty bad for this) and it looks like a "money

pit," you look elsewhere for another building. Most buildings can be salvaged and made efficient by having an "industry-friendly" company take a look at it (before you condemn it).

It's more frequent than you may think. Unfortunately, many companies have resisted upgrading their plants for so long that when forced to do so, either by competition from outside their home turf, or by necessity to just keep washing, they find themselves looking at a huge investment (in their minds) and put the word out that they are for sale.

So now the prospective buyer still has to deal with an old, inefficient plant. This could cause him to not offer as much as he probably would have if the plant was in good shape. Either way, it's detrimental to the business to not keep the plant in good working order.

Kwasnick: This depends on the flexibility of the company's business model. If the production processes within a company are very standardized, then absorbing a plant that does not meet these standards can be very disruptive. So remodeling the existing plant or constructing a new one may be the best course of action.

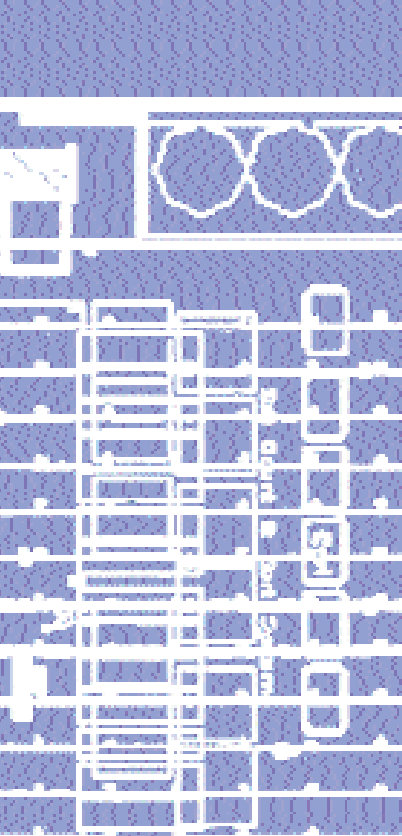
However, if the company does not have rigid production requirements, minor modifications of the existing plant are an option. For large national chains, the company may already have a plant, or even two, in the area. This allows them to absorb the production into the existing plant(s) and shut down the acquired location.

Patton: We developed a plan before an acquisition was made to either move the business or renovate enough to ensure reasonable productivity and consistent production. If we could move the business, we included the property sale in the financial pro forma for the acquisition.

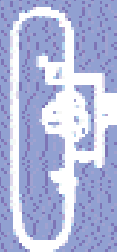
Do most operators have some kind of objective or practice tied into plant age; that all facilities should be no older than XX years; each should be analyzed for expansion or replacement every X years; or that each facility's square footage ought to be examined every so often, etc.?

O'Neill: The useful lifespan of a plant depends mainly on the attitude of keeping the plant in good working condition. A coat of paint, refinishing the floor, new lighting, etc. can make an old plant look as good as new. Keeping the equipment in good working order and updating technology when it makes sense can keep a plant running indefinitely.

There is no time frame for replacement for a well-run operation. The time frame should always be linked to growth. Can you do new or more of the same type of work in this building? If the answer is "no," you probably never had to ask the question. It has become evident that you have exhausted the potential of your existing building and equipment. If



A new plant can differentiate you from competitors. It may provide the image of professionalism necessary to tip the scales in your direction.



the answer is “sure, we can,” you likely have not reached the ultimate capacity of your existing building!

Kwasnick: Again, this would be an individual-company answer. These are issues worth considering, particularly for chains.

Patton: No, we didn’t use this approach. We had an ongoing process for facility evaluations, with capital requests coming to the corporate office every year.

An automated equivalent is available for just about every type of manual plant system, from receiving soil to loading out clean. If every operation is manual, sometimes, is it worth completely replacing the plant because it’s the most cost-effective way to automate everything?

O’Neill: Absolutely not. You can automate part of an existing facility and keep the whole operation running. While this is tricky in some situations, it can be done if the right people are involved in the retrofit. All it takes is one small area to start in, where a process can be transferred while the other area is updated.

It’s almost like a Lego building project. You start with one small block and eventually you have completed the project. While the cost may be substantial (75 percent of new), it still saved you 25 percent. But you will have some major headaches. Whether it’s worth it or not is up to the operators themselves.

Kwasnick: Sometimes building a new plant is the best option, but not because everything is manual. More likely, it is because upgrading to automated equipment requires additional clear height, larger column spacing, or other changes that are cost prohibitive.

Patton: It would depend on how the plant is operating. Our old Culpeper plant made a lot of money and was pretty much a manual plant except for hanging machines. Eventually, we were planning to upgrade the facility in the washroom and sortation areas.

What about the “showcase” factor? No one is going to build a new plant just because it would look good to customers and prospects. But does this ever become one of the factors in making the decision to replace an older one? Perhaps the older one still has some life in it, but the promotional and human resources benefits of creating an attractive new workplace put the project over the line?

O’Neill: The showcase factor is bigger than you think. Today, a lot of businesses operate on “politically correct” ideas of ergonomics, environment-friend-

ly machinery, etc. Laundry customers are as politically correct as anyone.

I have seen a lot of contracts for laundry being awarded after a tour of a new state-of-the-art facility. Thus, the showcase factor has its price, but whether it’s worth it or not is a case-by-case situation.

Kwasnick: Yes, this definitely plays a role when a company wants to increase their presence in a market, especially when trying to solicit the business of larger, more professional customers.

When I operated a new state-of-the-art laundry, we used plant tours as a point of differentiation in our local market. Many times, that new plant provided the image of professionalism necessary to tip the scales in our direction.

Patton: No, I do not think so. I have seen older facilities that are in as good condition as ones that are five or 10 years old. Older plants can become “cash cows” because there is no depreciation expense and they are generally run very well. Profit margins can be in the 30 percent range.

What would prompt you to build a plant from the ground up, rather than use an existing building? In industrial, the lack of adequate ceiling space? In linen, anything in particular?

O’Neill: Building height has always been a drawback and so too are available utilities. Surprisingly, though, a lot of existing buildings out there are not quite 24 or 28 feet clear, but many storage facilities (now empty) are close. Some even exceed the heights desired.

While it is always smart to use the cube (especially building new, as you pay a square-foot price to build and the sky’s the limit), the cost of existing building square footage can be so low that you don’t need to be so worried about the cube.

Thus, if you get all the square footage you need at a much lower price per foot, you’ve struck a favorable compromise between using the cube and getting a larger building.

Kwasnick: I think I covered this in my answer to the previous question about new versus existing plants.

Patton: In industrial, I believe the reasons would be more toward capacity, not ceiling height or space. Then you consider issues such as facility age, location in reference to the business, facility condition, the extent and cost of the renovations required, and what incentives are available for new construction like tax breaks or economic development incentives.

In linen, floor space and these issues are factors. You may find that plant optimization, like route optimization, is a much more costly because most folks wait too long to build plants.

Next month: Patton’s “wish list” for new plants. **IL**