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# LEADING THE WAY

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# LEADING THE WAY

Three manufacturing CEOs and the bold steps they took to make their companies successful competitors.

BY STEVE MINTER

**W**hen the Council on Competitiveness asked 400 manufacturing executives from around the world last year to rank nations on their manufacturing competitiveness, they put the United States in fourth place, behind China, India and South Korea. They also forecast that the United States would fall to fifth place by 2015. ¶ Commenting on its study, the council said the United States “has been challenged to create high-value, manufacturing-driven job growth which, in turn, has become a tremendous challenge for both policymakers and business leaders keen on maintaining the prosperity of the American working middle class.”



**“We surgically went after new markets such as medical and alternative energy. We looked for ways to grow significantly in oil and gas, commercial aerospace, microelectronics and advanced electronics such as cell phones and smartphones.”**

—Richard Hipple, CEO, President and Chairman, Materion Corp.

In earlier survey results conducted by the council in association with Deloitte, CEOs said that in five years, the factor most important to company competitiveness would be strength of leadership and management, followed closely by overall product quality as perceived by customers. CEOs also cited sharp increases in the coming importance of business strategy and capacity for innovation.

This month, INDUSTRYWEEK kicks off a four-part series on the competitiveness challenge facing the United States and its manufacturing community. We start the series with a look at how manufacturing CEOs are crafting strategies to build their companies, meet customer demands, deploy technology, develop their workforces and ensure long-term competitiveness.

## Material Advantage

For several decades, Brush Engineered Materials’ identity was inextricably linked with beryllium, the toxic but highly functional metal used in a variety of aerospace, nuclear and other applications. But in recent years,

Brush had transformed itself into a more diversified company with considerable expertise in a variety of materials. Still, thanks to a series of acquisitions, a divisional structure and a variety of brand names, most customers knew only a small part of what Brush’s capabilities were.

On March 8, Brush sought to forge a stronger, unified identity when it changed its name to Materion Corp. While it was the beginning of a new era for the company, it culminated a transformation that has been going on under the leadership of CEO, Presi-

dent and Chairman Richard Hipple and other Brush executives for the past 10 years. When Hipple joined Brush in 2001, it was a \$400 million company with 65% of its business connected to beryllium. While beryllium had been a good business, executives knew depending on it would limit growth because it was capital-intensive, had high fixed costs and was highly cyclical in nature.

A smaller part of the company, however, was focused on engineering precious metals, such as gold, platinum and palladium, into specialty products for markets such as electronics. This area enjoyed much more intellectual-property value, had lower working capital and fixed costs, and offered many channels for growth. The company decided to ramp up investment.

“We surgically went after new markets such as medical and alternative energy. We looked for ways to grow significantly in oil and gas, commercial aerospace, microelectronics and advanced electronics such as cell phones and smartphones,” Hipple recalls. For these new markets, Brush focused on employing its engineering teams to work with customers on their technology roadmaps and use advanced materials to solve their engineering challenges.

On the operations side, Hipple has pushed lean sigma in the company. He says it provides employees with an effective problem-solving methodology, and it reduces costs. “We have structured lean sigma programs across the company where we track dollar cost savings per year,” he notes.

Hipple calls criticisms that lean tools such as lean sigma don’t promote innovation “ridiculous.”

“You have to have a robust lean sigma system to operate effectively, take cost out, do things with less working capital, have faster turns of inventory,” he says. “The other aspect is, you have to have an innovation engine. You don’t choose. You have to do both.”

The 2008-2009 recession challenged Hipple’s leadership team to keep Brush focused on its long-term strategy while dealing with a host of immediate issues. He says many times companies think a downturn’s end is “just a quarter away” and that there is no need to start major spending cuts.

“We said to ourselves, ‘This is getting ugly in a hurry.’ As our order book started to turn down, we assumed that whatever point it was turning down to, it was not coming back for six to nine months. We couldn’t afford to wait; we had to operate at a much lower [cost] level.”

The combination of quick action to control costs and a strong balance sheet allowed Hipple to make two acquisitions during the recession. The company purchased Academy Corp., a provider of precious and non-precious metals and refining services for markets such as architectural glass and solar energy, and Barr Associates, a manufacturer of precision thin-film optical filters.

Hipple’s plans for Materion’s growth include accelerating its international sales, particularly in Asia. While the reported figure for international sales is 35%, he says a number of its products go to U.S. plants where they are then used and shipped overseas. “Our participation on the global stage is at least 50%, if not greater, because of the nature of our product sales and where they are going,” he explains.

Despite the severe downturns that have rocked the economy, Brush has achieved a compound annual growth rate of 17% since 2002 and grew sales to \$1.3 billion in 2010. Now as Materion Corp., says Hipple, the company will be able to go to



**“We wanted to focus on North America and on the sticky part of the value chain, where you print and convert for large consumer-package-goods companies.”**

—Jack Knott, CEO, Exopack Holdings

Exopack was put together in 2005 when CEO Jack Knott, with the financial backing of Sun Capital, acquired Cello-Foil, Exopack and The Packaging Group. The flexible packaging industry is diverse, with more than 400 companies competing for \$20 billion in annual sales. Knott set out to build a mid-sized company with annual revenue of \$500 million to \$1 billion.

“We wanted to focus on North America and on the sticky part of the value chain, where you print and convert for large consumer-package-goods companies,” Knott explains. Exopack ultimately acquired six companies and integrated them, a process that involved keeping approximately 900 of 4,000 employees and closing four plants. The company also, in Knott’s words, “fired 1,000 customers” and exited some businesses.

Critical to building a unified culture in the new company was the introduction of a systematic management process in its 19 facilities. “If you walked into any of our plants this morning, you would find they have the same morning meeting, the same metrics they are looking at, and those metrics roll up to the same weekly report and then to the same monthly report,” says Knott. “We have a simple communication process that allows us to monitor any abnormalities coming into our P&L.”

In 2006, Knott introduced a novel concept for his industry—the Global Packaging Linx. Exopack partnered with other packaging companies and essentially established a global supply chain in which customers can benefit from lower prices and a wider array of technologies but place all their orders through Exopack’s customer service group. The products are shipped into Exopack’s plants and then delivered to customers. “We are the only face to the customer in North America, and our partners do not compete with us in North America,” Knott says.

From the beginning, Knott set out to build Exopack by serving industries that are “defensible” and non-cyclical. By concentrat-

market as a single, unified organization. He declares: “This is going to give us a powerful lever to help grow the company to the next level.”

## **Building the Right Package**

If you bought dog food, microwave popcorn or a bag of vegetables this week, it’s likely you touched a product made by Exopack Holdings. While the company is not a household name, it produces paper packaging, plastic packaging and engineered coatings for some of the best-known companies in the world, such as Procter & Gamble, Kellogg’s, ConAgra and Colgate-Palmolive.

ing on food and household items that must be purchased even in a recession, Exopack was able to escape the large swings experienced by some other manufacturers. Moreover, large consumer-goods companies are producing more varieties of their products in an attempt to win market share. Knott notes that his customers' product lines average more than 400 SKUs. "Because of that, we do an awful lot of artwork and printing," he notes. "For them to pick up and move that is a lot of effort, a lot of cost." Customers also risk the chance that changing to a new packaging supplier could introduce a change in the flavor of a product.



**"We're passionate about remaining domestically produced."**—James Stitt, president and CEO, Cutco Corp.

The new ownership invested \$130 million in state-of-the-art equipment. The rising tide of SKUs has helped shape Exopack's technology investments. It has brought in quick-changeover presses to sharply reduce the time needed for setup of jobs. For example, Knott says a run of 50,000 bags of dog food might have taken five minutes but then required a changeover of more than two hours. With the new technology, the changeover can be handled in 20 minutes. The company also has purchased new blown-film lines so that it can meet increasing demands for more sustainable products. "Our customer base is really focused on that. To do that, you need to make plastic film thinner and stronger," Knott explains, noting that the film for Coca-Cola cans would have been 33% thicker two years ago than it is today.

## Hometown Edge

Forever is a long time, almost unimaginable in today's world of disposable products and quick-change ownership. Yet James Stitt,

president and CEO of Cutco Corp., continues to take the long view with regard to his products and his company. Cutco manufactures high-end cutlery and accessories in its factory in Olean, N.Y. The company is the second-largest employer in the town of approximately 15,000, and a vital part of the local economy. Stitt is committed to continuing manufacturing in Olean and to promoting the value of domestic manufacturing to the United States.

"We're passionate about remaining domestically produced," says Stitt. "We know how important our 800 employees are to the community. Philosophically, we feel that we have a responsibility to maintain these jobs."

Given his viewpoint, perhaps it should not be surprising that the company's knives carry a "Forever Guarantee" that says: "If at any time you are not completely satisfied with the performance of your Cutco product, we will correct the problem or replace the product."

"We have product that comes in from 1949 and if it needs to be replaced, it is replaced, no questions asked," Stitt notes. "We felt that was the biggest selling point we could have, to put our word behind the product, put that word behind our salespeople who are selling a high-quality, high-priced product. The value was it was the last knife you would ever have to buy."

Cutco employs a direct marketing salesforce through its Vector Marketing subsidiary. Each year, the company's ranks swell with college students who will work out of 800 offices across the United States. In June, July and August, the salesforce demonstrates the products in people's homes and makes 65% of the company's sales.

Stitt says his decision to shun outsourcing to China or another low-cost country provides his company with several production advantages. The company forecasts its annual sales and then produces its products on a steady basis throughout the year to meet the heavy demand in the summer months. He says that if the company faces unexpectedly high demand, he can simply ratchet up production. With offshore suppliers, he believes, the company would have less flexibility and would have to order much further in advance.

Cutco also has high quality standards, which Stitt says are driven by a team approach of management and the Steelworkers union. In the past year, the company has installed two robot cells that do some of the assembly and buffing work. However, the final edge is still put on the knives by skilled employees, though Stitt is constantly looking for ways to automate more of the process. "We haven't found one yet where we can automate and get the kind of edge we want, get it finished properly and also not scratch the product," he says. "To this point, the person gives us the better edge." 



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