

## Time to Add Capacity? Not So Fast!

It may seem like a simple solution, but expanding can be wrought with challenges.

The “manufacturing recession days” of 2009 and 2010, during which the manufacturing economy slowed considerably, left many coaters and finishing lines starved for work. However, in the last 12 months or so, the manufacturing segment seems to have bounced back with a healthy degree of strength.

Many coatings lines are busier than they have been in years, and their employees are stretched thinner than ever before. Even as shifts have been expanded and weekend hours have become the norm, many operations struggle to meet quoted lead times. Expedites abound, further constraining capacity. Some employees have even taken to blaming customers for “unreasonable expectations”—the first sign of a potential cancer that can lead to apathy on the part of those entrusted with meeting customer expectations and, eventually, to lost customers.

Then someone finally says it: “We just need more capacity.”

Be it in the form of another line or an additional piece of equipment, the return of the five-day work week and satisfied customers is incumbent upon capital investment and expanded capacity, right?

Not so fast.

While adding capacity might seem like the simple solution, doing so comes with its own set of headaches. The process of procuring additional equipment is wrought with challenges. Adding capacity is expensive, and even if the properly calculated Return on Investment or Payback Period justifies the expenditure, new capital equipment ties up cash that could otherwise be invested elsewhere.

Consider also the distractions that result from the decision to expand. New systems must be planned and designed, bids requested, proposals reviewed—often from myriad suppliers— and agreements negotiated. Regulations must be understood and complied with, and construction permits procured. Remember the customers whose growth precipitated the need for new equipment? Their demands don’t take a holiday just because we decide to expand.

Thus, once the actual project begins, so, too, do the inevitable late nights and weekends at the plant. Frustrations with contractors, change orders and project delays must be dealt with and explained, all the while distracting the leadership team from other worthy tasks and projects.

To be sure, every growing finishing operation will eventually reach the point where additional equipment must be procured and installed. Before pulling the trigger, though, ponder the following:

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- 1. Have I implemented Quantum Throughput Maximization (QTM)?** Often, the initial call for additional capacity is the proverbial canary in the coal mine that tells us something is wrong with the fashion in which the coatings line or department is being managed. Before starting down the road of a capital expansion, ensure that the right expectations are being set for the team; that the seven deadly wastes have been rigorously addressed; that rework, downtime and the impact of changeovers have been absolutely minimized; that the window is full, line speed is optimized and orders are properly sequenced. Prepare to be amazed at how much capacity can be created, seemingly out of thin air, just by addressing these issues.

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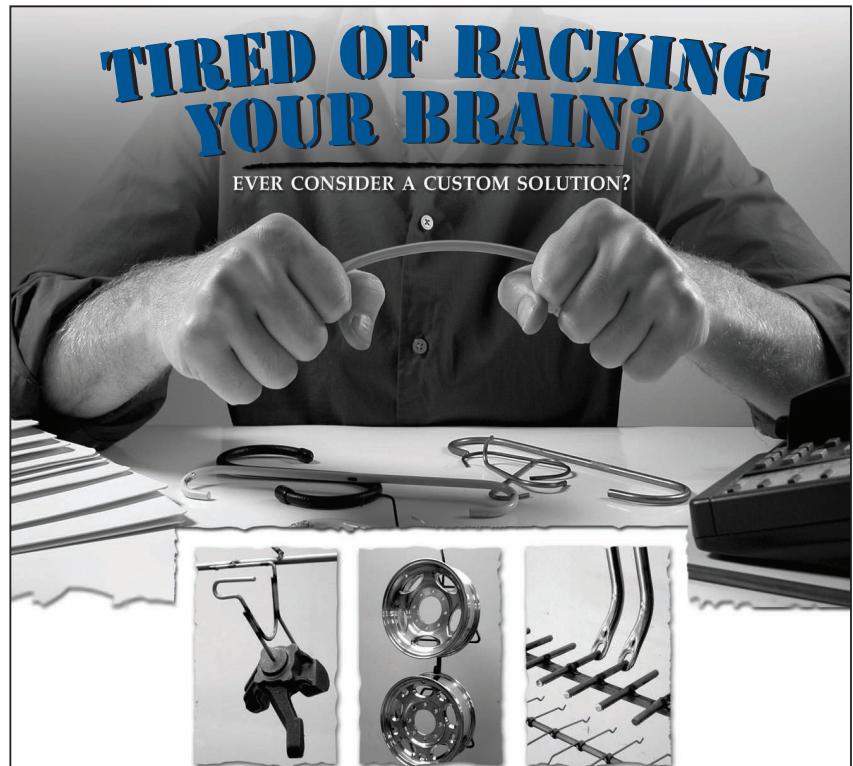
2. **What's driving the need for additional capacity?** Is it an increase in one customer's volume or a general increase in demand? Expanding capacity around the needs of one customer can be a risky endeavor should that customer's volume suddenly decline. Before adding capacity, ensure that the increased demand is sustainable. We often make the mistake of planning as if the future will be the same as today. It never is.
3. **What's my payback model?** Most companies have a general benchmark (often 12-36 months) over which the anticipated increased margin generated by a capital investment must offset the initial investment itself. Be sure that an honest and objective analysis of these increases has been completed and payback requirements met.
4. **Have I addressed marginally priced work?** During the dire years of 2009 and 2010, many coaters took on work at lower-than-optimal prices just to keep employees busy and capacity somewhat utilized, and to pay for the "coffee and lights." Before adding capacity, ensure that work is priced to market.
5. **Have I considered more creative solutions?** Options such as adjusting lead times for certain customers, outsourcing non-core work to another coater or even helping customers that fall outside of our growth strategy find another supplier can alleviate strained capacity.
6. **Are my team and I up to the mission?** Accepting the challenge of a major capital expansion usually makes life worse before it gets better. Make sure your team is prepared for the 6 to 12 months of hard work and frustration that may have to be endured before you reach the light at the end of the tunnel.

In spite of its challenges, adding capacity is often a necessary step on the path to a coating operation's sustained business development and progress. Once certain that you are doing it for the right reasons, proceed boldly in the direction of your growth! ■

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