

## CASE STUDY: LONGVIEW FIBRE

Sanabe worked with Longview Fibre (“Longview” or the “Company”) in 2004 to address a number of cost and accounting issues at its large, underperforming containerboard and kraft paper mill.

At the time of our assignment, the Company’s Longview, WA paper mill (the “Mill”) produced approximately 900,000 tons of containerboard and kraft paper on nine paper machines.

The Mill’s machines could swing between a variety of grades that were sold to third parties and to the Company’s fifteen corrugated converting operations.

Sanabe recognized that a good understanding of the relative profitability of various grades by machine would enable management to maximize the benefit of the Mill’s flexible production base. However, this information was obscured by two aspects of the Company’s accounting system.

- The Company transferred containerboard to its converting operations at the fully loaded cost of production
- The Company’s information systems could only provide grade profitability data including the impact of all fixed costs including depreciation and SG&A

Sanabe suggested that both of these practices undermined management’s ability to optimize its grade mix by machine and to manage effectively its fixed costs.

As a part of our assignment, we recast the Mill’s profitability to reflect containerboard transfers to the converting operations at market prices (accounting for differences in performance characteristics and basis weights).

We also developed grade profitability data that eliminated fixed costs and SG&A. We then worked with management to incorporate this variable contribution margin per machine hour into its ongoing monthly internal financial reporting.

Finally, we applied the conclusions of our grade profitability analysis to identify opportunities to shift the Mill’s mix toward the more attractive products.