

## COVER STORY



# Time Is Money, Software Is the Sweep Hand

In the brave new world of velocity metrics, every second counts. How are you spending your time?

**W**CI Steel Inc., Warren, Ohio, is one of only three integrated steel producers in the United States that hasn't become part of a larger steel-maker in the recent wave of industry consolidation. Not that it hasn't faced challenges: it operated under Chapter 11 bankruptcy protection from Sept. 16, 2003, until the beginning of last month.

**By Maria Guzzo**

One of the steps it has taken to ensure it is able to remain a viable company in the event of another downturn is to install a technology program that enables it to measure and improve profitability.

It didn't take long to show that investing in Maxager 7—the new version of computer software issued by Maxager Technology Inc., San Rafael, Calif.—would pay off. On the first day that WCI Steel tested the system, it uncovered an

invoicing error that David A. Howard, vice president of commercial at WCI, said more than paid for the trial subscription period. "The item stuck out like a sore thumb," he said. "We investigated, found we made an error and collected the money from the customer."

The invoicing error resulted from a faulty conversion between the English and metric measurement systems, which significantly reduced the amount of revenue that initially came back to WCI. "In our original system, it would not have created an alert because it was recorded as paid and there were no discrepancies—everything matched," Howard said.

But Maxager 7 pointed it out—and pointed out WCI's need for a profitability measurement system.

While Maxager's first success was uncovering the invoicing error, its true goal is to combine margin data with a "velocity" metric so the finance, produc-

tion and sales and marketing departments can collaboratively optimize capacity and product and customer mix in the most profitable manner possible.

Michael Rothschild, Maxager's founder and chief executive officer, said his company's product has resulted in an average increase in operating cash and profit of 3 to 5 percent of revenue for its customers, which include several steel mills. "If you look at traditional accounting systems, they report, at a detailed level, money per ton or per unit," he said. "They don't report profit-per-mill-minute or cash-per-galvanizing-line-minute. Steel executives understand that a minute lost in terms of profit-making because of a shutdown will never be recovered. Every minute does matter."

The Maxager system shows companies which products are moving fast and utilizing the mill's assets in the most efficient manner.

Since WCI has used Maxager for only three months, Howard said the steelmaker hasn't yet calculated an increased revenue return. "But it has caused us to rethink our view of our business," he said. "Maxager has the ability to take a basket of products you make and the amount of time they take and create an apples-to-apples comparison on cash generation potential per product, which wasn't available previously."

As a result, WCI has begun addressing profitability issues with customers. "It does not necessarily always mean price changes, but it may mean a different mix or quantity of items we sell that improves profitability and cash generation," Howard said.

For example, if WCI sells a customer 50 different hot-rolled products, it uses Maxager to determine which of those products are the most profitable. It will identify the items that do well, giving management the opportunity to try to increase those sales while urging the customer to find alternative sources for products not profitable for WCI—a substitute approach for the traditional method of merely hiking the price of all hot-rolled products as a way of increasing revenue. "It's a terrific mix-management tool," Howard said. "By and large, customers need a profitable supply base. Successful relationships are based on

**'Steel executives understand that a minute lost in terms of profit-making because of a shutdown will never be recovered. Every minute does matter.'**

**—Michael Rothschild, Maxager**

transactions that are good for both parties."

Maxager is one of several software programs that steel companies can use to improve profitability.

Ravi Madhavan, associate professor of business administration at the Joseph M. Katz Graduate School of Business at the University of Pittsburgh, said that at the most basic level, profitability is measured as the difference between a company's revenues and its costs. And while Madhavan is not personally familiar with Maxager's system, he said that in princi-

ple time is a very important driver of profitability.

For example, a company that keeps inventory on hand for longer relative to its competition incurs higher inventory costs and thus lower profits; a company that takes longer to collect money from its customers also is at a disadvantage. Thus, he said, the speed at which cash invested in the business is turned back into cash receipts from the customer is an important driver of performance.

"This is one reason why lean manufacturing and just-in-time production have become so widespread these days," Madhavan said. "Assuming that the velocity metric captures some of these time-efficiency issues, I'd guess that it's a useful tool."

However, Madhavan noted that operating to such exacting standards of time-efficiency is not as easy as installing new software. "Unless such new tools are accompanied by changes in the 'activity system' of the company—how decisions are made, how people are trained, how supplier and customer relationships are structured, etc.—it's hard to achieve the goal of operating at such a higher level of efficiency."

**—MARIA GUZZO**

---

To view the article in its entirety, please contact American Metal Market at 412-765-2580 or email [kross@amm.com](mailto:kross@amm.com).