

“We’re Anticipating an Increase from 15,000 to 20,000 Insert Sets Per Hour”

When is the ideal time to replace an existing machine with a new one? When do upgrades make sense and when is a new investment called for? “Panorama” discussed such exciting questions with Martin Keller, Deputy Managing Director and Chief Operating Officer at Direct Mail Company (DMC), one of the largest direct marketing companies in Switzerland.

► Although DMC had already recouped its investment in three SLS3000 inserting systems after just four years – three years earlier than planned – the company decided to invest in a new machine generation and has installed three FlexLiners (see “Panorama” 3/14). Martin Keller explains in the following interview what prompted the new investment.

Panorama: With securities, the right time to invest is said to be when the buyer has a higher probability of gain than of a loss. Is there a similar formula for the right time to invest when it comes to machines?

Martin Keller (Deputy Managing Director and Chief Operating Officer at DMC): Yes, there is. The optimal time for replacing existing equipment with new equipment can be calculated using the cost comparison method. For us, bearing process optimization in mind, the rule is that an immediate replacement is worthwhile once the average profit of the new equipment over time is greater than the marginal profit of the old equipment over time. The cost comparison calculation involves comparing the average costs of the new equipment with the marginal costs of the old equipment. The marginal costs are the benchmark, since the fixed costs for the old equipment

have already been paid. An investment is advantageous if the dynamic payback period is shorter than the service life.

How long was the payback period for your three SLS3000 inserting systems?

For the first investment it was 3.9 years, with a planned service life of seven years. We recouped our investment in the SLS3000 systems after just four years – three years earlier than planned.

Leaving financial considerations aside, what do you hope to achieve with the new investment?

In addition to reducing running costs, we want to enhance the quality of our end products and create further potential for higher earnings by increasing performance.

Are there special investment rules for larger systems such as inserting systems?

No, as a rule, the size of the system and the investment volume don’t play a role. The type of use and, based on that, the service



Martin Keller, Deputy Managing Director and Chief Operating Officer at DMC: “By reducing unit costs, we’ll become even more attractive in the market.” Richard Hofer (right), Sales Manager at Muller Martini Switzerland.

DMC: 100 Million Sets with 1 Billion Inserts Annually

With over 100 million copies of the “IN” carrier medium and around one billion inserts yearly, Direct Mail Company (DMC) is one of the largest direct marketing companies in Switzerland. Three FlexLiner inserting systems with FlexPack bundle building systems from Muller Martini are used for zoned inserting at the DMC plant, which employs 110 people and is located in Niederbipp in the canton of Berne. The three FlexLiners replaced three SLS3000 machines in 2014 and 2015.

DMC’s specialties include onsets, which are popular with the company’s customers because they are eye-catching. Up to three onsets are applied to the main jacket and enter the pocket wheel together with the folder, while the gathered insert package is simultaneously fed to the inserting system. The FlexLiner is the only machine on the market that processes onsets using such a technique



life are decisive. The fact that our operations are multishift obviously needs to be taken into account when calculating the service life.

Can you give some specific figures indicating why you decided to replace three relatively young SLS3000 systems with three new FlexLiners?

We expect the new inserting systems to give us an increase in performance from 15,000 to 20,000 “IN” insert sets per hour, which represents a 33 percent rise. That will enable us to cut our costs by around

“We recouped our investment in the SLS3000 systems after just under four years – three years earlier than planned.”

CHF 1 million a year. Currently, half a year after commissioning, we’re at just over 19,000 sets per hour with the first FlexLiner commissioned. That’s in line with our expectations, since we’re essentially still in the “training phase”. We anticipate that we’ll exceed our target of 20,000 in the fall. The revenue generated by selling the old machines, which was not inconsiderable given their age, was also attractive for us.

Investment Decisions

- ▶ **Investments** are understood as all measures where money is spent to create performance potential, and which are aimed at generating greater earnings or lower expenses at a later time.
- ▶ The **cost comparison calculation** is a form of capital budgeting and is used to compare a range of different investment options. The total cost of the various options is calculated and the most cost-effective one is selected.
- ▶ The **dynamic payback period** is the time within which the net present value of an investment first becomes zero or positive.

Aside from the resale value of the old machines, why was 2014 the right time for your investment in the first FlexLiner?

The pressure for enhanced quality, especially in the production of sets, was constantly increasing. The increase in performance also provides the possibility to handle additional production volumes in Niederbipp, and to thereby optimize fixed costs as a ratio of unit costs. We plan to increase our production of sets in the next two years from 1.3 to 1.5 million copies twice a week, while keeping to the same lead times. By reducing unit costs, we’ll become even more attractive in the market. What’s more, when developing the FlexLiner, Muller Martini adopted some of our

ideas concerning the gathering process and the possibility of onsets.

On the one hand, the cost of investment in older machines has often already been recouped, so they essentially produce “free of charge”. On the other hand, their performance declines or they can’t generate the same productivity as new systems despite being well maintained. How do you see those conflicting interests when making your investment decisions?

You have to look closely at reliability and possible downtime as well as the increase in maintenance costs for older systems. With tight lead times like ours, reliability is a key factor. Equipment that is run in multi-shift operations has a shorter service life. That’s why it’s important for the machine manufacturer to be able to provide detailed figures. We have the minimum service life contractually guaranteed.





1 DMC applies up to three onserts per insert set using the new FlexLiner.

2 DMC produces over 100 million copies of the "IN" carrier medium and processes around one billion inserts annually.

"There's no room for false sentimentality when it comes to investment decisions – too much money is at stake!"



Higher output after a number of years of operation could also be achieved by re-conditioning and upgrading existing equipment. Why did you opt for a new machine generation?

In our business segment, an increase in output of the old systems wasn't possible for technical and physical reasons. A VW Golf can't be upgraded to a Formula One car. Let me give two examples. Since our inserts differ greatly in terms of size and consistency, output at the compensating stacker couldn't be increased further for the production of sets. On the gathering section, the folder, i.e. our main section, was first fed and opened, before the inserts were inserted. With this type of gathering, there are limits to the extent to which the production speed can be increased. By contrast, the new technology of the FlexLiner, which applies and gathers the inserts before adding them as a bundle to the main section (we no longer insert in the strict sense), enables considerably higher production speeds, not to mention the fact that we can now process onserts automatically.

Do companies like DMC always decide on an investment solely according to financial considerations, or do technical and emotional factors (e.g. long-standing partnership with a supplier) also play a part in investment decisions?

There's no room for false sentimentality when it comes to investment decisions – too much money is at stake! That's why we only decide according to financial criteria as a rule. That means performing a serious evaluation, clearing defining requirements and ensuring the process is in line with our governance policy. Of course, questions of quality and creating additional production capacity by increasing performance also played an important role in our decision. Although we've had an excellent relationship with Muller Martini for years, the decision on the new investment was made according to an evaluation process with clear specifications. Naturally, though, we're delighted that our existing partner meets our expectations regarding the new machine.

Has investment behavior changed in your business segment in recent years owing to the increasing pressure on margins?

Increasing attention needs to be paid to quality, flexibility and shorter processing times. Unaddressed advertising is offered in Switzerland through various channels and by various organizations. DMC, the largest private mailing company, competes with the Promopost product of Post Schweiz AG (Swiss Post), as well as increasingly with newspaper publishers and their inserts in newspapers. That's why, in order to be a cost leader, it's important to achieve a high performance level and low unit prices. ◀

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On Track with the FlexLiner

Since commissioning the first FlexLiner, DMC has increased its average output to over 19,000 "IN" insert sets per hour. The target of 20,000 is to be exceeded this fall. Output fell slightly below 15,000 in the first weeks. "But we were expecting that, since we invested in the training of machine operators, for whom many of the functions were new," says Martin Keller, Deputy Managing Director and Chief Operating Officer at DMC. "And it shouldn't be forgotten that we started out right at the SLS3000 minimum output of 15,000."

Performance Start FlexLiner

