

-- Speaker 0 00:04 Make it right. The manufacturing podcast.

Speaker 1 00:10 Years ago, I was the last host to be on the air when the radio station I worked for flip the switch to move to a new location. As that last song wound down on the turntable and master control move to the new studio, an eerie silence fell over the building. This hub of communication that had hummed with music, machinery, people in activity for years was suddenly dead quiet and frankly it was almost heartbreaking and it's that image, that moment that I've been thinking about when I imagine all the factories that are currently shuttered in silent due to covert 19 it's that eerie silence. Welcome to the makeup right podcast. I'm Janet Eastman and this week on the show my guest is Carlos reshape. He's the founder of the disposable diaper network and the principal at <inaudible> investments. Carlos has worked in the diaper industry for more than 30 years and he joins me to talk about the way forward after this lockdown. So Carlos, good to speak to you again. How are you doing?

Speaker 2 01:12 I'm doing great Janet, and it's great to talk with you again.

Speaker 1 01:16 So in a year, 30 plus years in this industry, does anything from your working past compare at all to what we're going through right now?

Speaker 2 01:26 No, not at all. For sure not. And uh, you know, I'm from Mexico and we lived through a couple of great the, uh, economic problems with over devaluations, but nothing, nothing comes close to what we have now.

Speaker 1 01:38 <inaudible> what are your biggest concerns at this point in time?

Speaker 2 01:44 Well, I think we're going to go through the, uh, the health issues, uh, one way or the another. And I hope that the damage is not that bad. Okay. Uh, some people are going to die. That's going to be terrible. But the, the, the economic problems that are coming after the coffee, uh, those are the ones that, that worry me cause uh, um, I think, uh, we're going to be facing one great challenge, eh, in the, in the future, in the short term future.

Speaker 1 02:15 <inaudible> so can you give us some guidance on the anticipated overall financial impact of this shutdown on the diaper industry? Like, I know from like, it's very hard that it's a big unknown at this point in time, but factories don't normally shut down and shut down completely for months at a time, and it's probably been at least a month now. What do you, what do you see is that financial impact? What are some of those challenges moving forward once they've say, okay, let's flip the switch and get going?

Speaker 2 02:45 Well, I, I see different kinds of problems. Some of them are going to be related to, to the, uh, supply. Uh, you know, all of these problems have created disturbances with the supply chain. Uh, some raw materials have to be used for the most critical, uh, you know, uses like making masks and respirators. So a material like S M M S, which is this boom bond, Mel blown as boom bond or the S S even polyethylene film, all of them have been converted into making masks. So, um, you know, these are the same materials that we use in the diaper industry to make the top sheet and the led cops and the laminated backsheet. So, uh, it's easy to, to see that, uh, we are going to have scarcity and the diaper machines, even after the <inaudible> are going to struggle for sometime trying to be able to find these raw materials.

Speaker 1 03:45 <inaudible> and when you actually look down the supply chain and all the way going back to everybody who supplies everybody all the way up along that supply chain, I guess they're all going to be kind of dealing with the same issue, aren't they?

Speaker 2 03:59 Yes, they are. And, and the, the, the thing here, when you're looking at a other product like diapers, which are really a basic commodity, most people will think of that as a necessity. And the, even a product like that, that is supposed to go back very soon into production mode and be able to supply, you know, all of the demand. The reality is that, uh, there are many components into making a diaper. I mean, at least 18, 20 different raw materials and a single one of them that is not ready to, to be sourced. Uh, and we have a problem. They, you cannot make diapers anymore. If you have one component that is missing. And you know, this, this, this whole situation, this is our, uh, you know, uh, like a --

-- big drain that that did require, you know, slowly to, to, to catch it in order to, to be able to, to, to have its, uh, uh, design speed. So the here is going to be the same. I mean, just putting back everything into, into a business mode. It may take months.

Speaker 1 05:05 Hmm. So what are some of the biggest concerns, I mean, beyond that supply issue that you're hearing from manufacturers at this point?

Speaker 2 05:14 Well, uh, you know, the, the, the program started in China, you know, and, uh, China is right now at the place where you have the largest, uh, uh, disparity between the man and an author. And the, now, many of the Chinese manufacturers are looking for non-woven supply from outside of China. Uh, but as these, uh, <inaudible> is moving into other places, uh, now we started to see the same situation. Uh, we just, uh, a few weeks of delay. Uh, I think, uh, the problem in Mexico for example, uh, justice, we are just starting to feel, uh, the, the situation of the, uh, of the <inaudible>. Um, so not every place in the world is experiencing this problem. At the same time, uh, we, we are out of sync, but uh, sooner than later is going to catch up the whole world.

Speaker 1 06:11 Now if diaper manufacturers locked down in this, just a random thought that just came out of my head. But if diaper manufacturers are, are in lockdown, uh, and there is trouble getting supplies to make diapers in the future. I'm thinking from the standpoint of if I was <inaudible> apparent with a bunch of young children, is there going to be a diaper shortage?

Speaker 2 06:35 Well, it is interesting. I was surprised. I mean, not surprising. Every time we, we have, uh, we have a, uh, a catastrophe. I mean, toilet paper seems to always run out. People like Gracie, they went to shop for toilet paper. But if you think about that, I mean, you do have children, babies, okay. Uh, baby diapers are going to also have the same type of situation. You know, the, one of the differences that the, maybe the inventories were, uh, you know, um, intended for larger periods, so, so you could still supply at diapers for, for several weeks ahead. Uh, but uh, it's going to finish. And the, uh, the sooner that you can get everything back into operational mode, uh, the better. But, um, I think him, this is going to to uh, create a problem. Uh, and the, I hope those moms that had babies have made a, a provision and have their own inventories at home because they might have a problem finding diapers in the near term.

Speaker 1 07:43 <inaudible> we were speaking about the supply chain earlier and, and you know, the difficulty all the way along it and getting the supplies to make the things that they, you know, you need to pass on to the next person who's in the supply chain. Uh, and this is, uh, this is a question out of pure ignorance because I don't know how, how long you keep us or you have a supply chain filled up, but is, is most of the, the product delivered for manufacturer kind of adjusting time thing or is there a huge stockpile sitting there that you know, you can, you can go with? How does it operate?

Speaker 2 08:18 Well, uh, some, some of the, of the raw materials are actually being managed in a just in time. I mean, just within a few days of inventory. Some of the other components like printed materials, back sheets that have to have a design like, you know, um, Mickey Maldonado, whatever the, the inventory is probably larger within several weeks. Uh, but I th I can hardly see any kind of a diaper model factor in the master region with inventory that are way above, let's say three or four weeks. So, um, my expectation is that that inventory goes away. Uh, you have to find a way to, to do the resupply. And this is where we might go into see some problems, especially with, with two of the components that are, I think the most critical right now, which are the Nonwovens, the Mel Blount and these homebound Nonwovens. Uh, these two are, are used to use for the production of masks.

Speaker 2 09:20 And, and the, I think, uh, being objective, it is more important that these raw material is being used into masks that then into baby diapers, uh, people that are facing these, uh, this, uh, virus I R need to be protected and they are the front line and they are risking everything. Their families, uh, their, you know, uh, parents and grandparents and, and uh, and dealing with the, with the, all of the pe --

-- ople that are sick, they need the correct equipment. So naturally I think, uh, the best use for the non bonus right now is a, is this for this, uh, you know, protecting equipment for, for, for the doctors and the nurses that are attending this, uh, people that need help.

Speaker 1 10:07 <inaudible> is there an alternative to use in the interim, if you know, I mean, if, if, um, ma the manufacturers get back up and running, is there an alternative to that non-woven that could be used?

Speaker 2 10:20 At this moment? We don't have an alternative. Maybe there's an alternative for the people that are using the masks. I think, uh, some very clever ways of reducing masks have been developed. Uh, I've heard a few of them. Um, uh, and the, instead of throwing away the masks, I think must to be recycle, uh, and reduced. Uh, and, uh, uh, I, I've heard that especially for those that are not at the front line, uh, in, in the medical, uh, you know, providing, uh, these type of services. Uh, for us, the general public, I think we only need to have like five, five masks per person. Uh, you can, you can, uh, you know, put a color into each one of these five masks and the after you use them, you just let them hanging. And after the five days, uh, the, the Colby cannot live that long.

Speaker 2 11:13 Uh, so you can reduce the same masks. Uh, and there are other ways, so simple ways to, uh, disinfect the masks. If people have a peroxide, a fine mist of peroxide can kill the virus very quickly and, uh, it doesn't leave any toxic, uh, residues like, uh, you use bleach of flooring. You, you, you may have a, you know, of course concerns about dioxins and toxic residues, but when do you use the H two Oh, two. I mean, the peroxide, uh, the peroxide, it's a very strong oxidizer. It kills the bacteria, TEALS the virus, uh, makes it inactive and the, it doesn't leave any residue. I think it's, that's a very easy way to recycled mast.

Speaker 1 11:57 <inaudible> wow. But somebody has to make that decision to do the recycle and to start shifting some of the Nonwovens over to the other side as things get maybe rolling back along after a long shutdown.

Speaker 2 12:11 Carlos, how hard is it

Speaker 1 12:12 to get a manufacturing plant up and running again?

Speaker 2 12:16 Well, uh, it's going to be a little bit of a problems. Not, not a huge challenge, but you know, my concern is that they might not be able to hire all of the people or to go into full production mode. So at the very beginning, uh, they might not be able to run 24 hours. So running a few chips every day means that every time you start from a, uh, called machines, you need to waste a little bit of time for the, uh, systems to stabilize and the, you know, the Hotmail tanks to get warm, uh, the whole machines need, need to find it. It writes a right, uh, setting, uh, the right configuration, et cetera. So I think we went to suffer a little bit in terms of the efficiency or the conversion efficiency, but not that much. Uh, maybe one or two points of efficiency.

Speaker 2 13:05 I, I'm more concerned about other things that I think are going to happen and they're going to have a big impact in our industry, uh, in, in the short term. Um, my, I, I think, uh, these, uh, biros is going to create a lot of unemployment and this unemployment, uh, is going to force people to make a decisions in terms of how they can better optimize, uh, their income. And one of them, those decisions would have to do with what end of diapers they can buy. So my expectations is that consumers are going to have to move one step down in terms of what kind of diapers they, they come by. And for that reason I think a, uh, uh, a cheaper alternative, uh, a product with good performance, but without the bells and whistles, uh, might be a good proposal for he's coming in, in the, in the, in the future.

Speaker 1 14:05 Hmm. So there is a, you're expecting the overall manufacturing of diapers in the style of diapers that they're going to be making in the near future to be

Speaker 2 14:15 different from what they had been putting out up until now, then? Yes. I think what it's going to happen is going to be similar to what we experienced during the big devaluations in the, you know, in the developing economies where we're going to see a jump in private labels. I think the most expensive, uh, and um, uh, <inaudible> nation brands or you know, the, th --

-- e, the, the, the, the premium products. Uh, we are going to probably go down in sales. Uh, and the, in addition, there's going to be another problem that I see happening right now. Uh, the, uh, birth rate is going to go down dramatically, eh, in the, in the next, uh, after the next nine months. I don't think people are going to be having babies. Uh, and that is going to create a record, low birth rate for, for the United States, Europe, and basically every other part of the world.

Speaker 1 15:15 Hm. You don't think that all this time locked up is going to produce more babies? I wish, but not, there's not a lot to do there, Carlos. So many other things to do. But in reality they have, or now Betty England alternatives. That doesn't mean they have to deny themselves from the, from the pleasure. I guess you're right about the social distance, let's put it that way. Yes, there is a social distancing part of it isn't there? Right. Not in these cases, especially if you are in the same, in the same,

Speaker 2 15:51 the thing is that is that people are very concerned about the disposable income and taking that into consideration when they decide to have a baby. And the, we, we are not living in the times where you, you know, you are not planning something as important as having a baby. So, um, during these type of situations, what we can forecast is that, uh, people have going to delay the decision of when they want to have the baby. So at the end of this year and the beginning of the next year for sure, probably 2021, we are going to have a decline in bird rates.

Speaker 1 16:29 And this was something that was actually it happening before in mature markets, wasn't it? Because, I mean the birth rate was declining and then the industry was actually creating, as you said, these premium diapers that had longer use and things like that. So this has been a problem in mature markets for you for a while.

Speaker 2 16:49 Yeah, it hasn't been, in fact, the last three years we have, every year is a new record. So a and the, and the thing is not going to help for sure. Uh, there's a couple of things that are going to be positive. I think at least it's going to change the way how we buy things, uh, after, uh, an extended lockout time. Uh, I think people get used to the idea of ordering, uh, and the doing everything through e-commerce. So I think the eCommerce is going to be a big winner. And those companies, I'm talking about the diaper vital factors or adult, the manufacturer that have a good infrastructure for selling their products through the e-commerce. Are you going to see a, again, an important game just because, uh, if the other people were not used to ordering by e-commerce, now they are finding out the benefits. And I think this want to create a new habit and, and probably they're going to keep doing it. So, um, I see a, a big plus for, uh, those, uh, companies that, that have made the effort to move in sales into e-commerce.

Speaker 1 17:59 Hmm. What about the, um, the adult diaper segment of the market? Because you know, we may not have the birth rate, but we certainly have the aging population and then, you know, people who aren't having children do get dogs and I put a diaper on my dog when he was ill. So, um, there is that segment though, I'm sure it's not that large, but there are other opportunities in the diaper industry just at a different level, correct?

Speaker 2 18:28 No, that, that is correct. I don't see a any decline in terms of uh, adult diaper sales. On the contrary, I think the, the, the population pyramid is going the direction where more and more people are going to need the, are going to need the, uh, protection, uh, this, uh, adult underwear or disposable underwear or briefs and the, and the, the, the need is going to be there in defendants of anything that happens with the economy. Now the problem is going to happen again. If the disposable income is compromised, I think people are going to start to be a, uh, more selective in what they buy. And uh, I think the same situation may happen where, where people are going to be looking into private labels more than the, than the big brands.

Speaker 1 19:15 <inaudible> do you do, um, work over in, in Asia, Africa and India in those areas where I think it's my understanding anyway that the, the diaper industry is growing as opposed to shrinking.

Speaker 2 19:27 It is absolutely we, and that is a, y --

-- ou know, something we are seeing, uh, with all of our clients in that area. I mean, we very active in India. Uh, we have four clients there and the, in every single case, we see a double digit growth. Number four for the baby, for baby diapers and the also for adult products. Uh, now they are also having these situations like the rest of the world where, where, uh, they're going to go through a, you know, on economy adjustment, uh, the labor is going to be compromised right now, all of the people without jobs. So, um, this is a global problem that we have to be dealing with, but, uh, the, the need for, for baby diapers as the market penetration is still going up. Maybe he will not grow as fast as what we predicted before the coffee. Uh, but the demand is going to be there later. Okay. It's just a, an adjustment that has to be, uh, related to, to the disposable income of people.

Speaker 1 20:33 <inaudible> so can you leave us with some, if possible, some bright spots that you see for the industry on the other side of covert 19. I know you mentioned the online thing. Um, anything else that you see out that Mmm, might be a bit of a bright spot for the industry?

Speaker 2 20:51 You know, the, this is a, um, something that happened to us too, the whole humanity. Uh, we're going to go through this one. It's going to take some time. I think those people that look this as an opportunity to make changes into their business model, uh, they're going to gain from that. I think it's a time of, uh, making adjustments and changes if, uh, if the, uh, patterns from consumers have changed. I think those that react quickly to detect these new behaviors on how, uh, you can deliver what the people want, those are the ones that are going to win. So even though the pricing doesn't look, uh, that sunny or that great right now, uh, we have to be more careful into detecting those opportunity areas. I can tell you that one of the very first thing that people do during these kind of, uh, situations is to chop down all of your consultings.

Speaker 2 21:50 For example, all your consultants. You have to, uh, you know, try to save money, uh, for the company. But this is especially, especially the situation where you may need, uh, you know, uh, expert help, uh, to reconfirm, to make a reconfiguration of your, uh, diaper, how to make it the diaper, uh, uh, cheaper in cost, but at the same time to keep the same performance, uh, how to, uh, adapt your business model into, uh, a model that we'll be able to, to sell and make profit for you. And the also, um, how to, uh, find a raw material supplier that are willing to sell to you when, when there's a scarcity and you may not be able to find materials. So I, I think, uh, uh, I, I wish I could be more positive, but I am realistic. Uh, I, I don't want to paint it in a way that, uh, this is going to be an easy challenge. It is not, is probably the most, uh, complicated or difficult in our life and all for our generation. So, um, so I think, uh, the worst thing we can do is just to panic. Uh, we have to, uh, think it slowly to analyze things and to find a path where you can, uh, um, you know, get back into, uh, into your business. Yep.

Speaker 1 23:19 I think it's been a really interesting time because I mean, at the start of the year we were talking about how people were so frantic because there was so much information and so much activity and we couldn't slow down to even look at what we were doing. And all of a sudden like we have really put the brakes on and now I think we've got a lot of time to look at what we're doing and there may be a massive reevaluation for a lot of on how we're going to go about business post Cove at 19. It'll be really interesting to see what the year looks like. Like April, 2021 will look like from, you know, from now. Very interesting I think. Yes, I agree. Carlos, it's been great speaking with you and I know that, um, there is some events coming up in the fall that a knock on wood, they will go forward and we'll have a chance to talk to you further about the diaper industry and how things are looking, um, at that point in time. But I really appreciate your insights and your time today. Thank you very much.

Speaker 0 24:20 Thank you, Janet. It's a pleasure. Carlos Reshma is the founder of the disposable diaper network and he's principal of reshape investments. That is the make it right podcast. It's brought to you by kava, Snoop leadershi --

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