Note: As we design various aspects of the planning process, there is sometimes a tendency to concentrate on the details and lose sight of the big picture. Often times we may not recognize that, perhaps, somebody just might have tackled similar issues before. In such instances, sometimes it is helpful to step back and look at what occurs in other commodity markets, and in particular when they face transportation issues. This is one such "story." It reflects many of the issues we are in the process of addressing. I'm sure you will recognize parallels.

- Bob Reed, NYSEG

The Ajax Toilet Paper Company

The Ajax Toilet Paper Company owns and operates a plant that produces toilet paper, a valuable commodity that is in consistent demand by virtually all consumers.

Toilet paper, as a product, has certain characteristics. There are substitutes for toilet paper, but, as a rule, they are generally poor and imperfect. It is also commonly accepted that toilet paper is really a homogenous product, and while various manufacturers may claim that their product is "softer" or "stronger", consumers generally know better. But perhaps as its most important characteristic, toilet paper must be available immediately when demanded by customers (if you have ever been out of toilet paper at an inopportune moment, you understand this only too well). Thankfully, consumers can buy and stockpile a quantity of toilet paper.

This is an important point: the toilet paper market is unregulated. [1]

Ajax competes with other manufacturers of toilet paper (US Paper, Inc. is its biggest competitor) in both a local and a regional market. Ajax's market geography consists of local sales in the towns around the plant, and exports, away from the local area, to distributors in the regional market. Ajax uses a fleet of big trucks to ship the toilet paper to the regional market.

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[1] *This was not always the case. There used to be in existence a regulatory body named the Paper Supply Commission, (in some circles known as the Paper Utilization Commission) but they went out of business, at least for the regulation of toilet paper manufacturing facilities. However for some reason they continue to exert influence in the transportation industry. Perhaps this is a vestige of their regulation of the distribution of toilet paper along with the supply.*

Ajax has a problem. It's plant output exceeds the demand in the local market and it's fleet of big trucks is too small to export all of the toilet paper that it would really like. Ajax anticipates that it could readily increase its market share in the regional area if it had more big trucks. Yet, for a whole variety of reasons, it doesn't want to reduce output. So, for the time being, the Company has been aggressively marketing toilet paper in the local area, (it has plenty of small trucks used for local delivery) and the demand/supply curve has caused local prices to become substantially discounted.

Meanwhile, in the regional market, toilet paper prices are quite a bit higher, reflecting the supply and demand conditions in effect. No wonder Ajax wants to ship more paper to the regional market - it thinks it can make more money!

So, one day, a bright young Ajax employee with an MBA gets an idea, and says to his co-workers, "Why don't we get some more big trucks?"

Not getting an immediate response, the MBA takes the initiative to work up a purchase order. The PO needs approval from the plant manager, and when it comes across his desk, the manager calls the young MBA in and asks some serious questions.

"Will the extra sales we think we can make in the regional market more than offset the purchase price and operating costs of these big trucks?" asks the plant manager. "And remember, the rumor mill has it that US Paper is considering building a new toilet paper plant right in the middle of the regional market, which would increase supply and potentially lower prices. What would that do to us?"

Good questions. The MBA goes back and completes a detailed analysis. And yes, it appears that the trucks will indeed be a worthwhile investment, although not without some downside risk. He convinces the plant manager and Ajax is soon the proud owner of a fleet of shiny new big trucks.

Ajax starts shipping more toilet paper into the regional market. The supply/demand balance subsequently changes both in the regional and the local markets. With more toilet paper available, regional prices tend lower, much to the relief of the regional populace. But Ajax sells a lot more toilet paper at prices somewhere between the low "local" price and former high regional price. They make more money (enough for a bonus for the young employee). Local prices, on the other hand, tend to rise to a more sustainable market level, as prices no longer reflect an excess supply situation. It's kind of too bad for the local populace, who got used to low toilet paper prices, but, as they say, that's competition in the toilet paper business!