

Counting the cost

Raw material prices, responding to pricing pressure and cost containment are the most immediate business concerns for the global packaging industry, according to a recent, wide-ranging industry survey conducted by **ICD Research**.

Constantly changing business dynamics present both threats and opportunities to packaging industry companies. The most important challenges facing buyers and suppliers, and how these can be overcome, have been captured in the definitive survey *'Global packaging industry outlook 2011-2012: Industry dynamics, market trends and opportunities, buyer spend and procurement strategies'* by industry analysis specialist ICD Research. In addition, respondents were surveyed on how suppliers can better maintain or win business from buyers and where the key areas of opportunity lie during the next 12-18 months.

Leading business concerns for 2010-2011

Of all the challenges packaging industry executives will face over the coming years, raw material prices, responding to pricing pressure and cost containment are the most immediate business concerns. While 63% of packaging companies rated raw material prices as an important business concern during 2009-2010, 54% said responding to pricing pressure was an important concern, making these actions the first and second most important issues respectively.

With raw material prices remaining the leading business challenge, many companies are seeking innovative solutions, including switching to cheap and renewable sources such as paperboard. For example, a manager of a packaging supplier company operating in Asia-Pacific stated, "Our main focus is on increasing awareness among the general public regarding the advantages of paperboard and alternate packaging materials, both in terms of sustainability and reusability. This will

help our clients to drastically reduce their operating costs."

Another example is Flint Group of Europe. The company focused on reducing the price of its packaging inks after an acute shortage of key raw materials and a steady rise in base chemical costs due to crude oil prices increased the price of its usual operations. Packaging converters source a large amount of raw materials from upstream industries and therefore are often damaged by fluctuations in raw material prices. Packaging companies must also deal with downward pricing pressures forced upon them by their clients, mainly brand owners and retailers.

Rising competition has led to increased pricing pressure for many companies, which in turn has negatively affected their bottom-line performance, especially in the food and beverage packaging sector. Therefore, companies are faced with the challenge of innovating and differentiating their products while simultaneously reducing their packaging costs. For example, Faerch Plast, a food

packaging company based in Denmark, developed a PET mono-material solution that provides opportunities to develop new packaging designs and add functionality, as well as significantly reduce costs.

Companies are actively seeking ways to contain costs and improve profitability, such as reducing excess packaging, using key performance indicators for cost management, reducing overheads, staff training and development, and efficiency improvement drives. Some companies have also undertaken spend analysis measures and organisational restructuring, including the consolidation of the supply base.

Cost containment and the availability of raw materials are considered to be the two leading concerns for companies due to recent volatility in the petroleum market and a subsequent rise in the price of basic feedstock for many flexible applications. As a result, most companies are seeking to adapt various measures to help contain costs. One such method is to invest in sophisticated technologies, such as robotics, to reduce

Business challenges: key findings

- Raw material prices, responding to pricing pressure and cost containment are the most immediate business concerns for the global packaging industry.
- Cost containment remains the leading business challenge for 50% of respondents with operations in North America, while the majority of respondents from all other regions consider raw material prices to be the leading concern.
- Buyers consider efforts to reduce prices, product innovation, improved customer service and reducing costs through efficiency to be the leading actions for suppliers to secure business from them.
- Buyer companies with a procurement budget of less than \$1 million assigned most importance to actions such as improve customer service and reduced prices.
- Buyers with budgets over \$50 million identified the need to work harder to reduce costs, the creation of innovative products, and engaging in partnerships to optimise working capital and reduce costs as the most important actions to be taken by suppliers.
- The most important actions identified by senior level respondents include working hard to reduce costs, improving customer service and innovating products.

operational costs and increase efficiency. For example, orders for new robots increased by 34% in North America and by over 100% outside of North America over the first nine months of 2010, compared to the equivalent period in 2009. The trend is expected to continue in 2011. Kawasaki Robotics (USA), which operates in the automotive sector, is planning to expand its packaging and palletising applications in North America by providing robotic solutions. Sales have increased across South America and Asia-Pacific, and are expected to be equally strong in 2011.

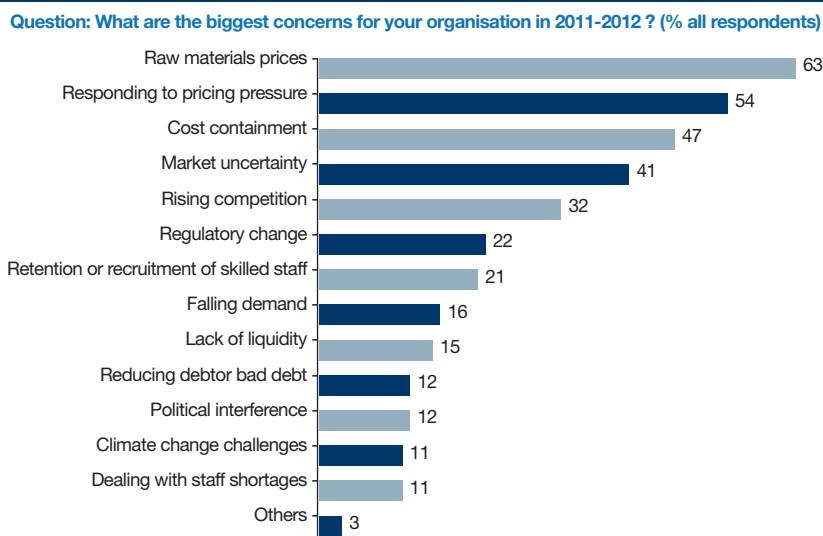
Although responding to pricing pressure and cost containment remained key concerns during 2011, the severity has reduced significantly from ICD Research's 2009 survey. This is likely to be the result of the end of recession and the subsequent increase in the stability of the world economy.

Notably, 11% of respondents indicate that meeting environmental challenges is a major concern. The industry faces regulatory challenges in terms of environmental and health issues, which has resulted in increased R&D initiatives and the increased budget allocation for product innovation. For example, the use of Bisphenol A (BPA) has recently been scrutinised. BPA is a chemical compound that has been used widely in polycarbonate plastic bottles and in the epoxy lining of canned food and beverages since the 1960s. The compound is also used in the manufacture of baby bottles and infant food containers. Recently, the compound has been investigated for its harmful effect on humans, including possible health defects in fetuses and neo-natal infants. Therefore, packaging manufacturers have had to begin to develop safe alternatives to BPA.

Leading business concerns by company turnover

For the process of analysing revenue growth expectations by company turnover, companies are classified as small (turnover less than \$100 million), medium (turnover between \$100 million and \$1 billion) and large (turnover more than \$1 billion).

Figure 1: Leading business concerns (%), 2011-2012



Source: ICD Research Industry Survey 2011 © ICD Research

Table 1: Leading business concerns by region (%), 2011-2012

Leading business concerns	North America	Europe	Asia Pacific	Rest of the world
Cost containment	50%	41%	62%	55%
Responding to pricing pressure	50%	57%	51%	48%
Raw material prices	48%	65%	70%	66%
Market uncertainty	42%	41%	41%	38%
Regulatory change	30%	20%	24%	21%
Retention or recruitment of skilled staff	26%	17%	27%	28%
Rising competition	26%	32%	38%	38%
Political interference	18%	10%	8%	14%
Falling demand	16%	18%	11%	17%
Dealing with staff shortages	10%	8%	19%	17%
Reducing debt or bad debt	10%	11%	19%	10%
Lack of liquidity	6%	17%	27%	7%
Climate change challenges	6%	13%	11%	10%
Others	10%	2%	3%	0%

N.B. Responses are not mutually exclusive and therefore do not equal 100%

Source: ICD Research Industry Survey 2011 © ICD Research

Irrespective of size, packaging companies consider raw material prices, responding to pricing pressure and cost containment to be the three leading business concerns. However, a lack of liquidity and falling demand for products were identified as major concerns for small and medium-sized companies, while large companies are less concerned by these factors. Similarly, regulatory changes are considered to be a major concern by large and medium-sized companies, while small companies are less concerned. ■



The information in this article was taken from the report 'Business Confidence in the Global Packaging Industry in 2011-12: Industry Dynamics, Market Trends and Opportunities, and Demand and Expenditure Forecast'. To purchase this report and for more information on sample provision, survey support or custom research solutions, contact icdreports@progressivedigitalmedia.com