The 8 Biggest Challenges Packaging Distributors Face

Introduction

The last several years have seen many changes in the US packaging industry. Consolidation on every level – suppliers, distributors, customers – has led to an increasingly competitive market. Many packaging distributors feel like they are being assaulted on every front. Long time customers have been consolidated into larger entities. Loyal vendors have started to go direct. Once rock solid margins have precipitously declined.

In this paper, we have outlined the common challenges packaging distributors face. While there is no magic wand that can cure all problems, there are some common sense steps packaging distributors can take to protect and grow their businesses during these challenging times.

The 8 biggest challenges packaging distributors face:

1. The perception that "Packaging is a commodity."

   Yes, packaging materials are available from many sources. Many materials can be substituted freely. Packaging is as important as any other component of a product. For consumer products, packaging often is the deciding factor in a purchase decision. An academic study determined 70% of decisions at grocery stores are made at the point of purchase.[1] What is influencing that decision? Packaging is a critical component of how we choose what we buy.

   While most industrial packaging will never been seen by the consumer, it does play an important role in getting product to consumers undamaged and in an efficient manner. An efficient use of packaging materials is a competitive advantage. That advantage does not always have to be price driven. Reducing damaged product, improving supply chain efficiency, and providing protection against theft, counterfeiting, and tampering are all vital roles packaging plays.

   Rather than trying to focus on a packaging product with your customers, discuss their *business processes and challenges* with them. Is damage an issue? Where in the supply chain? What are their supply chain challenges? Focusing on the bigger picture will help your customer understand the importance of packaging.

---

[1] Jugger, S. (1999), The Power of Packaging, Admap Magazine, October 1999.

IDimages
Delivering Label Solutions

2. Differentiating your value proposition is difficult.

   We all try to sell our value. We are all "partners" with our customers. Very few companies differentiate themselves well. Why? Because very few of us, executives and sales forces, differentiate ourselves well. Most often, we use price to differentiate. Price is something easy for the customer to see. It is a strategy, if you are the low cost producer and have the capital base to hold out a protracted price war, but usually using price to differentiate creates a vicious circle that results in margin compression if it is not stopped.

   The key to differentiation is looking at the world through your customers' eyes. They can buy boxes, stretch, labels, etc. from a myriad of sources. Why should they buy from you? Because you don't care if they buy from you: You care that they improve their businesses. That's your goal: help your customer improve. If you do that, they will have no choice but to buy from you.

   How can you help your customer improve? The process begins by understanding his or her business. What are the drivers of success? What are the hurdles the business must overcome? This is the key first step in differentiation. Offering programs – vendor managed inventory, savings guarantees, etc. – are great. They are also generic. You can only offer specific solutions if you truly understand your customer's business.

   You can also differentiate by working with your suppliers. The supplier-distributor relationship is a two way street – we need each other. Often, the relationship turns adversarial. Work with your suppliers and they will work with you.

3. Customers do not do an "apples to apples" comparison of competitors' products.

   After you have worked hard to combat the perception that packaging is a commodity and you truly do provide value to your customer, you get the following phone call:

   Customer: "I just got a quote from XYZ. Their price on [corrugate, stretch, tape, labels, fill in the blank] is 25% cheaper than yours. I'm not happy.
   You: "Are you sure it meets the specifications you set for the product?"
   Customer: "The rep provided me a specification sheet that matches what you're selling me and overcharging me for."

   As a supplier, we encounter situations like this almost daily. Inevitably, it has one of the following causes:

   A. The specification is not an apples to apples comparison.

B. The specification is an apples to apples comparison and the other vendor is trying to protect or win other business with a lowball price.
C. The specification is apples to apples and the competitor does not understand making money is important.
D. Some combination of the above.

A is relatively easy to combat. Explain why the initial product was specified and what its advantages are. If you cannot, you were overselling. That strategy inevitably leads to an irate customer. I suggest you offer alternatives today before a competitor does.

B is the most difficult situation to combat, particularly if the particular item is one that you use to earn your margin. This is where your differentiation strategy will pay off. If you are selling a bundle of products, it might be time to revisit the value you bring to the customer. If you are not selling a bundle of products, now is the time to propose a solution that offers you more share of his spend.

C will correct itself in time. It is a painful process. Just matching a price sends the message that you are no different (better) than your competitor. In certain circumstances, you might have to match the price. That is a last resort, particularly if there is little or even negative margin associated with the product/account.

D is the typical situation seen in the packaging industry. Because we struggle to differentiate ourselves, we use price to stand out, as mentioned above. You can avoid this by properly differentiating yourself among your competitors.

4. Rising raw material costs.

Commodities associated with packaging have risen dramatically over the last 2 years. Oil, pulp, and chemicals have increased significantly over this time period.

Component	January 2009	January 2011	% Change
Acrylic emulsion adhesive components	$0.80	$1.43	79%
Crude oil, European Brent (barrel)	$43.48	$99.02	128%
Crude oil, West TX Inter. (barrel)	$38.74	$91.38	136%
Pulp (NBSK)	$605	$960	59%

Sources:
Avery Dennison ; Wall Street Journal; TerraChoice Market Services

No one associated with packaging has been immune to the increases. Many suppliers have held out as long as they could; double-digit increases are the norm. If you are not raising your prices, you will most likely find yourself out of business in a very short period of time. Raising prices is seen as a non-productive activity. Use the opportunity to develop your differentiated position as a solutions provider. The increases cannot be avoided, but they can be mitigated. Are there opportunities to *change processes?* Don't just focus on material substitutions. Yes, those opportunities most likely exist, but real savings will come from helping your customer improve his business processes. We recently worked with a distributor who was able to help his customer reduce his shipping function staffing from 3 FTEs to 1. It required an increase in packaging spend but an overall significant savings to the customer. There was no down-gauging or substitution; the process was completely redesigned. Do you think that distributor is worried about price competition?

5. "Just in time inventory" at the customer level means more emergencies.
6. "Just in time inventory" at the supplier level means longer lead times.

   We all fell in love with just in time inventory when the economy was good. We reduced inventories and knew we could get product when we needed. Now, we face rampant inflation and component shortages. Additionally, cutbacks at the customer level have resulted in new people handling tasks they did not handle in the past. Cutbacks at the supplier level mean they do not have capacity to meet your customers' emergency requests. It all means you are stuck in the middle between a customer that needs product and a supplier that cannot provide it.

   Here is again where your differentiation strategy pays off. With your customer, you SHOULD manage inventory of all products you sell to them. That is a critical function you can play. With your vendors, do not be the boy who cried wolf. Vendors understand emergencies and will work with you. However, if every order is an emergency, you will have zero credibility.

7. Vendors go direct.

   In an increasingly lower margin world, many packaging manufacturers have responded by going direct to end user customers. That can circumvent the value add you as a distributor bring. Most manufacturers cannot do what you do. They cannot improve processes; they are experts in a certain area. They don't see the big picture; their goal is to sell what they make. You have a distinct advantage in these areas. Use it! The more you see the big picture, the more valuable your services are.

8. Customers are demanding higher service levels but don't want to pay more for the additional services.

   Customers want you to hold more inventory, do more frequent deliveries at lower volumes, and cut their prices! Oh, and your management has increased loads and increased the minimum order the company will deliver. Again, you are caught in the middle.

   First, one simple axiom: the customer pays the bills. Repeat: the customer pays the bills. That mantra should drive how this situation is handled. Right below that is the mantra: We need to make money. We need to make money. There is certainly a tension that exists. It can be balanced, however, by planning and creativity.

   Do your delivery days coincide with demand? Does your customer have space constraints that cause issues? These can be planned for and optimized. Again, the more you know about your customer's business, the more you can optimize. Work with them to solve these issues. Get creative. Can the route schedule be changed? Can your vendors drop ship? Can you make the emergency deliveries of certain items? The demands for increased service levels are an opportunity for you to demonstrate your value. Take advantage or a competitor will.

Conclusion

We have outlined the major challenges packaging distributors face. We have attempted to provide simple yet effective solutions to these challenges. If I.D. Images can help in any way, please contact us at customerservice@idimages.com or 1-866-516-7300.

About I.D. Images

I.D. Images, a leading manufacturer of converted label media, specializes in providing label solutions for supply chain management to brand protection. The company serves varied markets including Transport and Logistics, Food and Beverage, Consumer Durables and Healthcare to name a few. I.D. Images' comprehensive product offering includes thermal transfer, ribbons, direct thermal, laser and Integrated labels and cards, on various paper and film or synthetic substrates. In addition, I.D. Images offers significant custom label capabilities including spot and digital printing, multi-web laminations and die-cutting. I.D. Images sells exclusively through distribution with a primary focus on packaging distributors, value added resellers and other label converters.

About the Author

Brian Gale is the president and majority owner of I.D. Images, a leading pressure sensitive label converter headquartered just outside of Cleveland, OH. Since Brian joined I.D. Images in 2003, the company has more than tripled in size. Brian completed a successful management buyout of the company in 2007. Since 2009, the company has completed 3 strategic acquisitions. He is an active member of TLMI (Tag & Label Manufacturers Institute), serving on its board of directors. He is a frequent speaker at business and industry conferences.

Prior to joining I.D. Images, Brian worked in investment banking, investment management, and as a strategy consultant. His background ranges from helping start-up companies raise capital to advising Fortune 50 companies on organizational structure. He earned a bachelor's degree from Harvard University where he majored in economics. He also earned an MBA from the University of Chicago Booth School of Business. He is an active volunteer in several non-profit organizations.

You can reach Brian directly at bgale@idimages.com or (330) 558-8031.