PACKAGING UPDATE

Operational Strategies for Navigating Dynamic Markets

Seven issues and solutions that packaging manufacturers will need to prioritize as global markets emerge from COVID-19

Key Takeaways:

In this briefing we explore the market challenges facing European packaging manufacturers, and we offer some operational solutions. In addition to keeping employees safe and engaged, these include integrating automation and digital manufacturing technology while protecting quality and anticipating potential value chain disruptions.

Key insights and takeaways include:

- Demand quantifiable bottom-line efficiency and profitability improvements from new automation and digital technology
- Adopt a stage gate process to speed up new product development processes
- Use interim leaders and managers to provide bandwidth for business integration challenges
- Improve quality to maintain revenues and protect margins
- Leverage a disciplined management system to stay on top of dynamic market conditions and deploy countermeasures

12/14/20 | John Wynne, Tony Fendyke, and David P. Hicks

The global response to the coronavirus and COVID-19, and subsequent changes in consumer behavior, has had a huge impact on our packaging industry clients. Demand for paper and plastic packaging destined for hotels, airports, schools and restaurants evaporated in March. It slowly bounced back over the summer and suffered another drop in the autumn. That cycle is likely to be repeated to some degree in 2021.

During the same period demand for smaller portions, food takeaway and individual unit packaging has exploded. Because of dedicated production lines, packaging manufacturers have had to idle some lines while others are running non-stop, often in the same facility.

As COVID-19 case numbers rise and hospitalization rates climb, government restrictions will continue to crimp economic activity. The packaging demand mix will continue to fluctuate more than normal through the first half of 2021. In this article we look at the operational issues triggered by the pandemic and policy responses, then offer some suggestions for successfully managing immediate and future growth challenges.

Seven Issues and Solutions for Packaging Manufacturers for the Foreseeable Future

1. Keep people safe and productive
2. Prepare for ongoing value chain disruptions
3. Thoughtfully pursue automation and digital manufacturing technology
4. Leverage quality to protect margins and strengthen your top line
5. Accelerate innovation
6. Stay on top of maintenance
7. Effectively integrate acquisitions

1. Keep People Safe and Productive

Facemask requirements and ubiquitous bottles of hand sanitizer are daily reminders that we're living through unprecedented and perilous times. Until vaccines are widely available our lives will be filled with an extra level of anxiety.

With higher demand for takeaway from restaurants and supermarkets, sales volumes for many food and consumer packaging sectors have been running well ahead of last year, and production equipment is running full out. Running at or near capacity is stressful in normal times. Add to that today's challenges of getting everyone into work and keeping them healthy.

Before the pandemic there was a general labor shortage. That has eased somewhat but skilled and experienced people are still hard to find and retain. Protecting people and making them feel safe is a key element of any retention strategy. So is your management culture.

One plastic packaging operation that we worked with recently was struggling with unusually high turnover. Management took pride in their skills as firefighters, rushing in to solve any problems that popped up. The weakness of this approach is that it undermines the problem-solving capabilities and engagement of people on the floor.

By increasing standardization and consistency, and clarifying expectations, we helped operators recognize many issues themselves and then take the appropriate actions. Over time their employees became less frustrated by not knowing what to do. They have also become more engaged by the company's training investments and they are solving their own problems, which has had a measurable impact on turnover rates.

2. Prepare for Ongoing Value Chain Disruptions

With the increased uncertainty and volatility, many manufacturers increased their supply chain resiliency by building up inventory. This "serve-at-any-cost" mentality is not sustainable in the long term. Business leaders need to preserve cash and want to avoid tying up working capital in your warehouse. Packaging manufacturers need to be wary of the supply and demand impact of inventory buffers on both the raw material side and with customers who may have increased stockpiles.

Add to this the fact that some suppliers are struggling to maintain operations and financial viability with reduced sales volumes and cash flows. All of this makes it an especially apt time to perform a supply chain risk assessment, identify potential issues and address any concerns.

Back on the demand side, major food companies reduced their product mix during the early stages of the pandemic to fulfill sales spikes for their top sellers. Many are making those changes permanent. Coca-Cola, for example, has announced that it will discontinue 200 of its beverage brands, roughly half of its portfolio. Retiring some product lines has reduced manufacturing and distribution complexity and has provided a welcome boost to margins. It will also change their packaging requirements.

Demand contraction, supply-chain disruptions and economic uncertainty will reduce global maritime shipping volume by 4.1% in 2020, according to the U.N. Conference on Trade and Development. Weak global oil demand and tariff wars has caused shipping companies to idle ships and reduce capacity, which will continue to limit options for shippers and lead to delays.

The position of packaging suppliers in the supply chain makes them susceptible to the bullwhip effect. Managing demand volatility requires a robust sales and operations planning (S&OP) process. More steady demand in the past has caused some companies to lose some S&OP discipline. With today's more dynamic market situation manufacturers have been forced to reboot their S&OP programs or, at the very least, increase their planning meeting frequency.

Read how one packaging manufacturer upgraded its value chain.

And see the 4 Keys to Balancing Supply Chain Efficiency and Resilience.

3. Thoughtfully Pursue Automation and Digital Manufacturing Technology

Opportunities for automation in packaging plants tend to revolve around non-value-added tasks, like moving product from bins or tables onto conveyors, pallets or boxes. Operations managers and engineers need to continually ask, "How can this line be run with fewer people?" And, for the near future at least, "How can we reduce contact between people?".

Still, manufacturers need to proceed with caution. Many business leaders have become enamored of the push to "go digital." They are moving headlong down the digital pathway without a robust understanding of the underlying business value.

Any investment in automation or digital manufacturing technology should be practical and designed to quickly deliver quantifiable bottom-line efficiency and profitability improvements. If advanced technology promises more but somewhat vague capabilities, or additional data that the operation doesn't need to optimize processes, it's unlikely to deliver a real ROI. The financial benefits of better information and faster, data-driven decision making need to be clearly demonstrated.

Because it tends to be a labor-intensive area, end-of-the-line packer units are a frequent target of automation. As with any type of new automation, training of plant floor supervisors and managers is often neglected with such installations. After startup the people still on the line don't have a good understanding of the new machines, and often have trouble getting them to work as designed. Before long, they often revert back to manual material handling methods.

For some strategic perspective on automation and advance manufacturing technology, see Keep Your Technology Roadmap On Course: Three Ways to Drive Toward the ROI You Want.

Also, Digital Manufacturing: Make Smarter Automation Investments, for guidance on a "prove and move" implementation strategy for fully capitalizing on automation investments.

4. Leverage Quality to Protect Margins and Strengthen Your Top Line

Margins are being squeezed in many industries and markets. Packaging customers are diligently driving down quality problems in their processes and tightening up the quality parameters that they are willing to accept from suppliers. They expect less variation and are less tolerant of equipment jams, line stoppages and waste caused by out-of-spec packaging material.

In addition to eroding margins, quality failures can have a big impact on the top line. Many manufacturers become blasé about quality and take existing customers for granted, even in difficult economic times. It's much easier and less costly to keep current customers than replace a lost customer after a major quality issue, especially given the fact that a typical packaging supplier agreement runs from 12-24 months. If you lose a customer, it will be a long time before you can potentially win them back.

How then do packaging manufacturers reduce variation and ensure quality? This goes back to digital manufacturing and having the right data fast enough to identify root causes of any issues and then implement robust countermeasures. In addition to timely and accurate data, this requires strong problem-solving capabilities driven by effective employee engagement on the plant floor.

We recently helped a supplier of coated paper adopt these types of solutions to quality issues they were having. Contamination, more stringent customer specifications and shipment damage were causing an increase in quality claims. We helped them identify the contributors and eliminate contamination, tighten controls on automated visual inspection systems, and modify loading practices to eliminate transportation damage.

5. Accelerate Innovation

End consumers have not stopped putting pressure on the businesses they buy from and their packaging suppliers to reduce material usage, especially packaging from petroleum-based feedstock. It's no surprise then that packaging innovation these days revolves around environmental sustainability in addition to improving performance and adding marketable features.

Unfortunately, the new product development process of many manufactures lacks discipline, and packaging companies are no exception. There's often a lack of visibility to planning and scheduling deviations that cascades down throughout the process, leading to repeated delays and missed deadlines. Just because each new product is unique (to some degree) does not mean the development process cannot follow a robust and repeatable structure that follows a rigorous project management process.

Adopting a stage-gate approach can dramatically improve new product development efficiency and effectiveness while reducing time to market. No company wants to move forward with an R&D project and discover that the market demand is low or that manufacturing or quality cannot handle the new design. Beyond a fully vetted ideation process, elements of a stage-gate approach include:

- Detailed flow and time estimates with KPIs, including functional workload requirements, deadlines and planned vs. actual hours
- A disciplined planning and performance management process to monitor task status with weekly escalation meetings to address failures and launch countermeasures
- Periodic reviews of the new product pipeline to actively manage the portfolio and align resources accordingly

For more details about such an approach, see how a Danish Manufacturer Ramped Up their Product Development Process and started launching new products 40% faster.

6. Stay on Top of Maintenance

With consumer-oriented lines running non-stop, the weaknesses of a run-it-until-it-breaks equipment maintenance strategy is eventually revealed. For lines that companies cannot afford to shut down, be sure not to neglect any essential inspection or lubrication tasks. We've recently helped clients install additional temperature sensors, replace guards with plexiglass covers and make other modifications on essential equipment that enable visual inspection and vibration analysis without shutting it down.

Before any idled lines ramp back up, it's a good time to perform any major PM work. One asset that is often neglected is the comparatively inexpensive equipment at the end of production lines. Packaging manufacturers invest in huge, high volume, multi-million-euro production and extrusion lines. Then, at the end of the line, there's a €15,000 bagger or taping machine that is ignored and allowed to run until it fails, which shuts the whole line down.

See the recent article, Tackling Maintenance in the COVID Era: Stay on Track with an Interim Strategy, for our four-step COVID-19 era manufacturing maintenance strategy for organizations who can't run a full-on maintenance program during peak production or when resources are constrained.

7. Effectively Integrate Acquisitions

The pandemic has exposed unrecognized structural risks in many sectors, including aviation, tourism, food service, restaurants, hospitality, healthcare, and retail. The ongoing woes of companies in these industries are having a major impact on upstream suppliers of all types.

Economic upheavals are always major drivers of merger and acquisition activity. The pandemic turmoil will only add to the spate of acquisition activity among packaging manufacturers in recent years. Achieving the financial goal from a merger or acquisitions requires a successful integration strategy. Too many companies lose focus and don't fully complete the integration process after a deal is finalized.

Timely and effective integrations that achieve the targets of the deal thesis require sufficient oversight and resources. Regular reviews by senior management should maintain alignment with the acquisition strategy and prompt countermeasures when progress isn't going according to plan.

Today, the leadership teams of most packaging manufacturers are very streamlined. No one has a lot of spare capacity. In addition to top management, we see many companies struggling to allocate project managers to complete merger initiatives on schedule. This undermines the likelihood that they will hit projected financial targets.

Interim leaders and managers are one potential solution to this shortfall. People with the specific experience needed to successfully integrate an acquisition can be brought in much faster than a permanent hire. Experts at change management, temporary operations leaders know how to implement new processes or procedures quickly and they are strongly motivated to achieve the integration goals within a specific timeframe.

For an overview of how to overcome short-term leadership challenges, see Interim Talent: Your Solution to Operational Leadership Gaps.

Resilience and Flexibility Will Be the Watchwords for the Foreseeable Future

As we finalize this article COVID-19 cases are rising sharply, hospitalizations are climbing, and governments are locking down again, limiting travel and complicating trade. Businesses are strengthening employee protections and limiting some services, while vaccine approvals and distribution are inching closer every day.

At a fundamental level survival and success during uncertain times means protecting cash flows and minimizing risks while maintaining resiliency and flexibility. In a dynamic situation such as this leaders need a better-than-normal understanding of how the business is doing on a daily basis. With the shifting market dynamics business leaders will need to make fast decisions and take advantage of opportunities that are still rising up. That requires intelligence (meaningful data) and insights from managers at all levels. Leveraging analytics and operational dashboards, a disciplined business management system can accelerate this cycle of knowledge gathering and decision making.

A disciplined management system is also essential for keeping your people safe, staying on top of maintenance, investing in automation, accelerating innovation, integrating acquisitions, maintaining quality and mitigating demand and supply chain disruptions. Building such capabilities and staying flexible during these times will strengthen packaging manufacturers' market position, resilience and margins when we return to more normal times.

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