Thinking of Diversifying In Packaging? Think Carefully – Think Again – Think Not (?)

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Analysis and Commentary by John Zarwan

December 7, 2005 -- In the face of slowing, if not declining, growth of many traditional print markets, many observers, consultants, and industry savants have been pushing packaging as an opportunity for commercial printers. After all, packaging markets are still growing. Moreover, they are largely immune from digitization. It's said, "You can't send box of Wheaties over the Internet." And, conventional management theory says that if your core markets are declining, you should diversify into growing areas. Why not packaging, where printing and graphics are becoming increasingly important?

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Would that it were so simple.

First, let's look at the "growth" aspect. A recent industry press release touts the overall growth rate for package printing and converting at 22% from 2004 through 2009. Sounds good, right? Well, that works out to about 4% per year. Even the fastest growing segments, flexible packaging and labels, are projected to grow just 4.5% to 5% per year. Compared to commercial print, that looks pretty good, but it's still fairly anemic—just barely above the current inflation rate of 3.6%—and certainly slower than the growth of commercial print during the 1990s.

This situation has led to the continuing consolidation and restructuring of the packaging industry. For example, Smurfit Stone Container, the largest manufacturer, converter, and printer of corrugated and folding cartons, recently announced a major restructuring that includes, among other things, the closure of 20 to 30 box plants.

Step Back And Ask Yourself...

One of the more interesting strategic changes for Smurfit Stone is its new emphasis on growing the "agency" business. The aim is to provide a broader portfolio of packaging services, including design, layout, packing, and logistics. In this way, Smurfit Stone hopes to move away from commodity relationship, add value, and increase margins.

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This sounds an awful lot like what many are pushing commercial printers to do with their businesses: to become more than "printers" by turning themselves into full-service "graphic communications providers."

Before going into packaging, look at the services you currently provide. Who is your current customer? Is it a "print buyer"? Do you understand the corporate purpose behind what you are printing? Do you have good contacts in marketing departments? With product managers? Are you prepared to sell to the brand owner?

Do you understand how what you do fits into your customers' overall operations? How it affects their sales? If you move into packaging, you are increasing your importance to your customers by an order of magnitude. Are you prepared to become part of your customers' manufacturing supply chains? Are your inventory control and manufacturing processes up to snuff? How do you control and track your own inventory, work-in-process, and finished goods? Do you share that information with your customers? Do you know what Six Sigma is?

Can You Stand the Heat?

How good is your fulfillment? If you are just now considering moving into fulfillment for the documents, catalogs, and brochures that you currently print, how do you think you'll fare when hundreds of millions of dollars worth of their sales might be affected by your packaging printing operation? Are you prepared to assume liability for product defects? We're not talking about make-good ads here, but lawsuits.

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The point here is not that packaging is not an attractive option to consider. Rather, it is that the transition will not be easy. Aside from quite familiar industry-specific issues of consolidation, declining margins, pricing pressure, increasing costs of substrates, and the threat of offshoring, printers will face a host of challenges in adapting to new technology, different substrates, new competitors, and new customers.

I suggest that before they move into unfamiliar territory, printers need to get their own houses in order.