

Rising costs, shrinking margins

Label & Narrow Web's 2011 Mid-Year Economic Report: 'Challenging, frustrating and rewarding'

Our industry, it appears, is beset on all sides by the dragons of challenge. We are not alone, of course, and we are not among the worst of the sufferers, but sometimes it seems that the challenges have grown larger and more numerous of late, and we are battling ever more fiercely against the demands of suppliers, customers, marketplace conditions, and the business world in general.

Not to be overlooked in this storm of challenges are the opportunities – and there are many: helping customers to find more productivity in their packaging operations, improving the bottom line through implementation of Lean Manufacturing or other continuous improvement practices, cutting costs through development of green solutions to internal waste problems, establishing joint ventures or investing in operations elsewhere in the world to meet the competitive challenges, and exploring fascinating new niches.

As we do in every July/August issue, we present the opinions of several thinkers in the label industry whom we invited to ponder the state of their businesses and the industry as a whole at the midpoint of the year.

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The challenges:

Industry growth: We are pleased to report that TLMI converter members participating in the annual Ratio Study grew sales at a double digit rate in 2010. Smaller converters struggled to grow sales during the recent recession but rebounded strongly in 2010. Over one third of converters reported adding staff in the first quarter, according to the TLMI Quarterly Trends Report – a strong show of confidence.

Consolidation among competitors: An uptick in M&A activity should be expected as converters who launched their companies in the 1980s and '90s begin to look for exit strategies. Also, capital investments made by successful converters during the recession and after will continue to pay dividends and bring a competitive advantage to those companies that have fared well. This will increase the stress on weaker converters caught in the profit squeeze of higher supply chain / operating costs and customers pushing for lower prices.

Consolidation among customers and markets: Consolidation is a reality we all face. While we can't change the business cycle that's driving consolidation, we can continue to look for specialized business opportunities. Developing these niche areas can often play a key role in profitability. The ideas for these specialties can often come through networking with suppliers or other converters at industry meetings.

Increasingly demanding customers: Converters enjoy a great deal of loyalty from their customer base. The October 2010 TLMI Index and Trend report indicated that loyalty to vendors is still high among label sourcing personnel with 63 percent of participating end users indicating that they plan to stay with their current label vendors. 34 percent said they planned to put some business out to bid, and only 3 percent planned to put all of their business out to bid. I believe these results indicate that converters are largely successful in meeting the demands of their customers.

Rising material costs: The margin squeeze converters are currently experiencing is a challenge that's not for the faint of heart. Converters must partner even more closely with suppliers to find ways to minimize supply chain costs.

Waste reduction is critical to remaining competitive in this market. Fortunately, there is a broad based industry focus

on eliminating waste. Equipment that allows converters to limit the number of splices by using larger rolls is available at very reasonable costs. Labelstock suppliers have larger size rolls in stock - currently up to 20,000 foot rolls. Flying butt splicers are a great way to eliminate stops for roll changes. Turret rewinders also help minimize waste.

As an industry, we need to remember that the definition of waste is anything more than what's absolutely essential to produce a product that conforms to the customer's requirements.

The opportunities:

Greener Solutions: Converters have a real opportunity to differentiate themselves by pursuing more environmentally friendly business practices and products. TLMI launched LIFE (Label Initiative For the Environment) to give converters and their suppliers a low cost vehicle to drive their businesses and products toward more sustainable solutions. LIFE brings transparency to the marketplace for retailers and brand owners. There are currently 25 TLMI member locations that are LIFE certified and another 10 in process.

While most market segments aren't willing to pay more for greener products or suppliers, just about all are interested in learning more about cost neutral or cost savings opportunities. Our industry is gaining traction in key areas like liner and waste recycling. We must continue to work together to reduce our impact on the environment.

Lean Practices: As our industry moves increasingly from art to science, converters must refocus on what drives profits. Turning orders into dollars as efficiently as possible will bring continued success. Lean Manufacturing has been on the agenda at every TLMI Technical Conference since 2005. Once again, the 2011 conference will feature Lean Manufacturing as an opening day session. While converters have made much progress since the turn of the decade (when Lean was virtually unknown in our industry), there are still many cost savings opportunities. Lean is a continuous improvement journey that pays dividends at each stop but never arrives at its destination.

Management Practices: I believe converters that adopt and execute best practices will always succeed. Here are a few best practice questions we should ask ourselves:

Are our strategic plans in writing? How far out – one, three or five years? How well have we integrated our sales planning with operations? Have we communicated the strategic plans to the sales and management teams? Do our teams undertake specific initiatives that will lead to the success of the strategic plan? How often do our sales and management teams report on progress? Are we benchmarking our business versus the industry? Where are our biggest opportunities for improvement?

Growth of digital printing: The last several years have brought a dramatic increase in the number of digital print system manufacturers. UV inkjet technology has received significant interest. Digital will almost certainly continue to grow, but recent advances in automatic print and registration servo technology in conventional flexo presses will pressure digital's place in the market. There are a growing number of digital trade shops that provide an excellent way for converters to enter this market as resellers without investing in digital presses.