

# Case Study - Who Moved My Packaging

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## THEORETICAL BACKGROUND

During last decade, the major feature of Indian economy is emergence and formalization of the Micro, Small, and Medium Enterprises. The MSME sector's contribution in GDP has been consistently showing an upward trend. Even though the capital base and investment remain to be less as compared to the Public Limited Company, MSMEs have a major task ahead of them. This task remains to be the creation and circulation of adequate funds in an effective manner. Any favorable variance in the form of innovation which will add value to either potential or performance of the organization is welcome. This in no case means large organizations are not in need of such innovations but small firms like MSMEs have a big impact of innovations.

The profitability can be increased in either of the ways

1. Increase in selling price with the costs at constant level
2. Decrease in costs with the selling price at constant level
3. Increase in Selling Price with the costs at decreased level

Researched insights and study of costs have found that the actual cost of packaging is rising, if the costs of handling and storing are included. This rise can be attributed to the shift of importance from mere protection to include the aspect of promotion.

A product is much more than the physical product. There are tangible and intangible attributes along with the physical product that constitute the total product. Packaging is as much an integral part as any other component of the product. There is much more to packaging than just an outer cardboard box and information about the company. Packaging and packing may be used interchangeably, but they both are distinct. The primary aim of packing is protection and that of packaging also encompasses an important aspect of promotion.

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Packaging can be defined as a means of ensuring safe and efficient delivery of the goods in sound condition to the ultimate consumer, supplemented by efficient reuse of the packaging or recovery and/or disposal of the packaging material, at minimum costs.

Due to rise in packaging costs and its importance in the overall logistics, there are consultants and experts that are giving advice and guidance on packaging. It is very important to get the packaging aspect right, just as it is to get the marketing mix right. A very bad package can have adverse effect on branding, product perception and may put off customers. And this is true of packaging both in the consumer as well as industrial markets.

Strategic thought needs to be given to packaging. It is although more essential to manufactures and wholesalers who have to bear the burn of damaged goods in transit and increasing their overheads for storing. The long term ill effects are that goods and raw materials damaged in transit or shipment may increase production cost and delay the distribution of products. This has adverse effects on the profit margins. For industrial goods, packaging performs the role of branding for the company as individual product branding is difficult. Packaging does enhance the total company personality.

Many a times, packaging costs are subject to the sudden hikes and volatility in supply chain as well. It is a mix of both controllable and uncontrollable elements due to which Packaging costs have to be under constant scrutiny by Finance. Even Operational Expenses can be lowered to a considerable extent by controlling packaging expenses. Even though packaging expenses are industry, product and sector specific, they remain to be the major tools in the hands of management to help building the profitability. Good packaging at the right cost can help the company to reduce costs and contribute to branding. It is important to state that under-packaging and over packaging can be expensive. A good thought out packaging can reduce promotional and protective packaging costs.



Although packaging is recognized as having a significant impact on the efficiency of logistical systems and activities such as manufacturing, distribution, storage and handling throughout the supply chain, many packaging dependent costs in the logistical system are frequently overlooked by packaging designers (Twede, 1992). Packaging specifications directly influence the time required for completing packaging operations which ultimately affects product lead time and due date performance (delivery) to the customer (Lockamy, 1995).

Examples of the relationship between packaging and logistical activities are shown in Table I.

Table 1 : Packaging Cost Trade-Offs with Other Logistics Activities (Lambert et al.,1998).

Logistics Activity	Trade offs
<b>Transportation</b>	
Increased package Information	Decreases shipment delays: increased package information decrease tracking of lost shipments.
Increased package Protection	Decreases damage and theft in transit, but increases package weight and transport cost.
Increased Standardization	Decreases handling cost, vehicle waiting time for loading and unloading : increased standardization:increase modal choices for shipper and decreases need for specialized transport equipment.
<b>Inventory</b>	
Increased package Protection	Decreased theft, damage, insurance: increase product availability ( Sales ) :increases product value and carrying costs.
<b>Warehousing</b>	
Increased package information	Decreases order filling time, labour cost.
Increased product protection	Increases cube utilisation(stacking), but decreases cube utilisation by increasing the size of product dimensions.
Increased Standardization	Decreases order filling time, labour cost.
<b>Communications</b>	
Increased package information	Decreases other communications about the product such as telephone calls to track down lost shipments.labour cost.

## THE CASE AT SG ASSOCIATES – INNOVATION BY PACKAGING

SG Associates, a two tier firm in line of Auto Components supply also faced a challenge and successfully came out of the problem.

SG associates were not fully prepared for the rises in raw material prices in the midst of 2011. The situation was alarming as it affected their bottom line very drastically. The management was forced to reduce their other input costs on one side and on the other side they had to increase their product prices in the markets. This seemed like their sure shot solution to tackle rock bottom profits and increasing raw material costs. The strategic decision did make sense, but it would face a lot of resistance from distributors and customers.

Keeping the decision in mind, the management decided to increase the prices by 4% and reduce the cost by 8%. They were sure that working both ways, they could generate enough margins to have a healthy profit by 2012.

The tough decision meant they had to relook all their costs. There were limited avenues in front of them to reduce costs directly as a drastic reduction in necessary costs would mean putting a spoke in their operations.

While scrutinizing the cost records, management found out that the major factor leading the chart consistently remained Packaging Expenses and related labour cost. With 72% share of Material Cost of the product about which a little could be done, rising Packaging Expenses of more than 10% was an alarming situation. Packaging Expenses have got a direct impact on costs of goods sold the rising of which also hampers bottom line. Packaging Expenses remain to be the direct as well as indirect item of costs. In the sense, it has a presence as a Prime Cost component and in Selling & Distribution Overheads also. Where a little can be done in terms of Prime Cost, major control points can be installed on it in terms of Overheads.

After a thorough scrutiny, it was evident that there is a need to do something radically different to reduce cost indirectly by changing the design of the work structure. The direct material cost accounted for 72% of the costs. Out of the packaging expenses one item that was responsible for almost 10% of the total costs attracted the attention. This seemed like the big item that would change their course of business.

The company decided to consult a packaging consultant who would be working very closely on identifying key issues and analyze the current packaging processes. This involved a study of past data and observations at all levels in the C & F.

It was noted that they had 10 process packaging lines where they required 25 workers to feed the line with an overtime at the end of the month to fulfill the orders on time.

SG Associates also decided to enhance the brand image by introducing new packaging which would act in masking the reduction of cost in packaging and at the same time justify the increase in the prices to their distributors and customers. This seemed like a very good method to pacify loyal customers and overcome resistance. The resistance could mean in losing 50% of their billing, so it was highly important that they win the confidence of their customers.

To build on their branding, the color schemes on the boxes were re-designed. It also gave the new packaging a very attractive and clean look. Photographs of the products on the boxes were also added. The barcode was also on the boxes which gave it a very international look.

As of now, they did not have a standard packaging size for majority of the items. This was resulting in a lot of wastage in packaging. The pouches and boxes used were bigger than required. When planning the new packaging, minimum order quantity packages of every product were designed for every product.

The new pack designed was high on design & attraction and 5.5% cheaper in cost than the earlier ones, of course we eliminated a layer of pouch in that and eliminated all the stickers by printing all the matter on the box itself. By doing so, they brought the 10-line operation packaging process to just 6.

SG Associates were happy that this exercise has benefitted them immensely. They were able to reduce their inventory, have more space as a result of lesser inventory. The best part was that they could reduce their manpower at the C&F by 9 workers. Now they required only 16 workers and without any overtime. Overall they were able to save 5.5% and cumulatively they saved 11%.

Last but not the least, the customers of SG Associates also gave their new packaging thumbs up. The customers welcomed their new packages because of the following reasons

1. Standard packing sizes
2. Box sizes became smaller by 20% in volume and hence occupied lesser space at the customers end,
3. Got appreciated on the racks, the brand got more rack space in the retail because of its standardization & attractive colors.

Due to the innovative packaging measures adapted by SG Associates, the following major effects can be seen in Financials:

1. Reduction in Direct Costs
2. Reduction in indirect labour expenses
3. Improvement in Gross Margin
4. Improvement in Operating Income

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