

# BEYOND THE BOX

## The Growing Trend in Contract Packaging

BOARD CONVERTERS ARE OFFERING TURNKEY SOLUTIONS THAT ADD VALUE AND REVENUE. BY JACKIE SCHULTZ

Successful board converters often find ways to become intertwined with their customers' businesses, to a point where it would be difficult for the companies to separate. Providing value-added services allows customers to concentrate on their core competencies. According to one research firm, 80% of U.S. companies use outside sources to perform some function. Contracting out tasks frees up cash for other higher return investments. Also, managers can focus on issues that are key to growing their business.

This trend has led to new revenue opportunities for board converters, particularly in the form of contract packaging or fulfillment. From all indications, it's a growth market that many

corrugated converters are tapping into. "It's another way to capture the customer," says AICC President Steve Young. "Also, customers are seeking ways to cut their own costs. They're trying to trim their own operations so they're looking to get product off their floor and onto somebody else's. It's a nice adjunct."

Bob Landaal, Vice President of Sales and Marketing of Landaal Packaging Systems, agrees. "The time continues to be right for people in our industry to try to save their customers money. That is how the sheet plant has survived, by doing things a little bit different. You're selling the ability to do something that is a nuisance for your customer."

Landaal's grandfather set up the



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ABOVE: ALF IS LOCATED IN A 250,000SQ FT FACILITY NEXT TO VANGUARD PACKAGING.

RIGHT: LANDAAL PACKAGING SYSTEMS HAS A SEPARATE CONTRACT PACKAGING DIVISION.



contracting packaging division as an opportunity to offer customers additional services and diversify the business. Located in the automotive hub of Flint, Mich., Landaal Packaging Systems learned a hard lesson in 2007 when it lost \$9 million in automotive business from General Motors. "We're trying to continue to diversify our business and make sure that we're protected for when a certain market that we serve starts to struggle," Landaal says.

The contract packaging and fulfillment division is located in a 317,000-sq-ft facility about 55 miles from the Flint sheet plant. The division offers a variety of services, from warehousing and distribution to unitizing bulk items and shipping them to the end-user. "We tend to say, 'design

to delivery' quite a bit in our organization," Landaal says. "That allows us to start at the conceptual side at our new innovation center and help customers design and develop packaging. We then manufacture it, have them ship their product to us, we package it and then we send it out."

The process is transparent to the end-user and can be made to look like the product is actually coming from the customer's facility even though it ships from Landaal's contract packaging division.

### Turnkey Solution

Vanguard Packaging, a sheet plant in Kansas City, Mo., offered contract packaging services because customers wanted a turnkey solution, says Karen

Mathes, President of Advanced Logistics and Fulfillment (ALF). ALF was established in 2007 when the main vendor that supplied fulfillment services to Vanguard went out of business. Although ALF and Vanguard are located across the street from each other, they are entirely separate businesses, says Mathes. Her husband, Mark, is CEO of Vanguard Packaging. "We're completely separately owned, but obviously it's a symbiotic relationship. Vanguard is my largest customer."

ALF's primary service is the assembly of point-of-purchase displays. About 40% of the displays are also filled with product. The remainder are assembled, shrouded and sent empty to either DC's (distribution centers) or retail stores. The company also does some hand work that involves gluing, collating and stitching.

The company has grown significantly since it first opened. "We started with a 60,000-sq-ft warehouse. I was the only ALF employee. All the other employees were hired through a staffing agency," Mathes says. "We have expanded three times in the last six years and now have 250,000-sq-ft and 12 full-time employees."

That growth has paralleled Vanguard's growth. "We do not have a sales staff and rely on the growth of our largest customer as well as word of mouth from customers who have been pleased with our work," Mathes says.

### Lessons Learned

There are several key things to consider when setting up a contract packaging operation. "I found that the No. 1 most important thing was finding a good staffing agency. They had to be flexible

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in being able to provide additional staff on very short notice because we are so project driven," Mathes says, adding that one day ALF might be running only one line and need eight people and then two days later will be running eight lines that require 120 people. "There are thousands of staffing agencies. You have to find one that has a work force that is reliable and can easily ramp up in numbers."

Mathes has a core group of about 45 people who have been working at ALF for six years. They are employed through a staffing agency and on any given day ALF can tell them, 'We don't need you tomorrow,' however, Mathes says they work almost every business day. "We use them as our base so when we do need to ramp up numbers we can put two new people with one trained seasoned person and spread them out in our plant so we don't just all of the sudden have a project running with 15 new people."

Landaal's contract packaging and fulfillment division also relies heavily on a temporary workforce. "We have a couple of dedicated lines that are for specific types of business, but the majority of the production floor is designed to be flexible work stations because what we might be doing can change on a daily or even hourly basis," he says. "We may have associates packaging automotive components from 7:30 to 10:30 a.m. and then from 10:30 until they go home they could be helping fulfill a retail display. It's all about that flexibility in the lines and the work force."

Mathes says it's important to hire well. "Every person you hire has to be dedicated to attention to detail. Quality is everything. Your customer service has to be good but if your quality is not good, you're going to lose those customers."

She says her best resource is the people she works with. "I have a philosophy that people work with me not for me. If you hire well and foster an atmosphere where your employees can grow and develop, your company will reap the benefits of their development. I work with an extremely organized, fun and talented group of people."

A final word of advice is to be organized, she says. "Everything is about your labor costs. If you're not organized enough to figure out how many people you need for a project and how long it will take to get it done, you can lose a lot of money. As long as I hire people that have the dedication to detail and are extremely organized we will be successful."

For converters just starting out, Mathes recommends focusing on one particular specialty. For ALF it was point-of-purchase displays, which is Vanguard's market niche. "Don't start with something you don't know. Some people try to do P-O-P displays, shrink wrapping, clamshell containers and package pharmaceuticals. You can't

develop an expertise if you don't have something to start with. Become proficient before you move onto other opportunities."

"The biggest thing is understanding your market and knowing what's going to be your value proposition," Landaal says. "We're fortunate that the supply chain that we've come to embrace and understand in the auto industry is eerily similar to the retail environment."

In terms of investment to get started, there is a fairly low cost of entry. Depending on what services a company plans to provide, they may need to purchase tables, manual conveyors, glue guns, stretch wrap machines, autobag machines, ergonomic mats for employees to stand on and a video security system. "We've never had any issues with theft, but customers that are bringing in sea containers with millions of dollars worth of products want to know that you have cameras that watch as they're being unloaded and go to a secure area. It makes customers feel a lot more secure," Mathes says. ■

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KAREN MATHES (RIGHT) IS PRESIDENT OF ALF.