

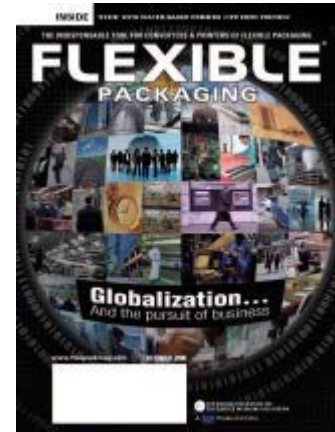
Globalization...And the pursuit of business

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Converters are growing their business through global expansion for all the right reasons.



Despite (or maybe because of) the economic environment in the U.S., flexible packaging converters are finding business opportunities in other countries.



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The world just isn't the same place it used to be. E-mail makes it so much easier to reach out and connect with people.

Cell phones allow you to talk to anyone anywhere at anytime. New technology emerges faster than you can even say new technology, and all of this makes the world a much

smaller place. Apparently, Walt Disney was right: It is a small world after all.

Yet at the same time, for being a much smaller place, the world is still expansive, ripe with an array of opportunities for people to start new, develop ideas and expand to corners they never thought they'd see. In business, expanding to such a global scale can be an intimidating idea but also an exciting one. It can be fraught with risk but also overwhelming with profit. And to be on par with others in your industry, globalizing your company has to, at minimum, be on your radar.

The flexible packaging industry is no exception. A trend toward globalization is not a new idea, but it is one that has been gaining more and more steam recently as new opportunities present themselves. New markets, new suppliers, new products and new consumers are all stepping forward into the forefront with globalization, and converters are on alert. To be global, most converters will agree, is to be closer to your customers.

"We operate globally to serve better our end-user customers and converters, both of whom also have assets through the world," says Rick Schloesser, president and chief operating officer of Kingstown, R.I.-based Toray Plastics (America) Inc. "[Focusing] on building business around the needs of our largest customers supports global expansion and simultaneously meets the strategic-growth needs of our global customers."

"Globalization is affecting almost every business in almost every industry," notes Glenn Fish, vice president of strategy for Montreal-based Alcan Packaging, "and some converters, like Alcan Packaging, have seen the value in globalizing. The flexible packaging industry is growing quickly in developing economies such as China, India and Latin America. These developing economies have a growing middle-class consumer base which is driving the increased demand for flexible packaging."

While developing economies play a huge part in where a company turns next in their globalization process, the current home economy can also play a role in global expansion for some companies.

"The thing that has sparked the most recent surge in globalization, I think, is the economy in the United States and the effect of the dollar on a global scale," says KeleMarie Lyons, president of Pinnacle XL, Milwaukee, Wis. "The trend toward global expansion was there before the economy in the U.S. changed, there is no doubt about that. But now, with the effect of the dollar, the light bulb has gone on for a lot of manufacturers to realize that they're missing a lot of opportunity out there because they don't have a global presence. And that's accelerated their interest in the global economy."

In addition, there has been a greater emphasis by the flexible packaging industry placed on sourcing lower-cost goods and labor while maintaining quality, which as-yet undeveloped or untapped markets can provide.

"They are looking for globally competitive cost structures, strong innovation, and local production to offer maximum responsiveness and short lead times," Fish says. "To succeed, companies need to know how to do it correctly."

(EN)COUNTER CULTURE

To "do it correctly," or to successfully expand globally, converters must take into account the challenges that they will face. And there certainly will be many, from the aforementioned cost structures and innovation to cultural concerns.

Many converters will agree that the cultural concerns encountered when expanding into foreign countries is the biggest challenge they will face. Before they can even think of moving into a new market, however, converters must know their market more than a little. Establishing a manufacturing operation in a new country without even testing the waters in that country, notes Lyons, would be like "trying to change direction on a fast-moving train."

"You can't go into a global operation easily without truly understanding the idiosyncrasies of the culture that you're moving your operation into," adds George Thomas, vice president and general manager of Ampac Flexibles, Cincinnati, Ohio. "I think a lot of companies that have moved into Asia and Eastern Europe have discovered that. There are different laws, different traditions, and you have to be careful that you understand those and can cooperatively move into those markets without creating barriers for yourself."

Notes Brad Herbolsheimer, global marketing director for Amcor Flexibles, Melbourne, Australia, "Those interested in playing on a global level should not make decisions from your desk in North America and assume that you have an understanding of that country. You can't appreciate it enough until you immerse yourself in the situation and fully get on the ground level and understand your customers and their end uses."

For example, Amcor invested heavily in the development and deployment of a multi-cultural, cross-functional team to thoroughly understand the Chinese Medical Market before it designed and opened its new High Performance packaging facility in Zhongshan City (Guandong province).

One way converters can test the waters before potentially drowning in the deep end is through joint ventures with local companies. Doing business with a partner who knows the country's regulatory landscape, culture and business practices helps to mitigate the risks. Understanding the foreign environment is key to success, whether you learn through joint ventures or by setting up your own manufacturing plant.

The unique needs and requirements of various cultures will without a doubt impact the globalization process. But that's not to say that overcoming cultural differences is impossible. One way to ensure an expanding company is staying within cultural bounds while simultaneously achieving its globalization goal is to work with organizations such as the Globalization and Localization Association (GALA), which can aid companies in better understanding the territory in an expansion project.

"Localization companies can help with market research and also with investigating the cultural implications of all text, graphics, brandings and logos on product packaging," explains Michael Sank, GALA board member and vice president of TransPerfect/Translations.com, New York. "Localization companies can provide insight into different markets for their clients."

Similar to the notion of cultural challenges, innovative ideas can cause pause in new markets. Customers and end-users in global markets aren't the same, obviously, as those in North America and converters need to be aware of what products and services will be best for various regions and markets.

"Different regions have different packaging preferences," explains Toray's Schloesser. "We occasionally encounter resistance to new ideas that can bring innovative, cost-effective change to the market. We strive to be collaborators, true partners, and create an awareness among customers of the variety of potential benefits to be gained when we embrace new ideas that go beyond familiar practices and structures."

FOR THE GLOBAL GOOD

Converters expanding or continuing to do business globally have a lot of factors to consider when building their business. Ensuring quality materials and products, keeping costs in line, and now, as the issue continues to swell, converters must be aware of how sustainability is impacting their going global and going beyond simply minimizing packaging.

"Sustainability is a global movement," says Fish. "It is a factor that businesses must consider as they move into new markets. In some places, sustainability is being accelerated by government regulation.



Toray's sprawling complex in France is just one of many locations able to serve customers in the global snack market.

In other places, like the U.S., it is market forces. Countries, like companies, define sustainability differently. Moving forward, remaining responsive to social and environmental concerns will require a multiplicity of approaches.”

As each country has its own set of rules and regulations regarding sustainability, converters are best to fully understand them on the front end before developing their supply chains and working environment. “You want to be compliant but at the same time cognizant of the equipment and its functionality on the environment itself,” explains Pinnacle’s Lyons.

Most often, sustainability practices are dictated by cost and education, says Ampac Flexible’s innovation and marketing director Sal Pellingra. With cost, he notes, “given a choice between equally performing sustainable packaging alternatives and a non-sustainable alternative, if cost is not part of the equation the more sustainable alternative wins. If there is a switching cost associated with the sustainable alternative the probability is greatly reduced. It takes time and resources to change packaging, and without a cost benefit it is difficult to justify the resources required to qualify new packaging.”

The education aspect of the sustainability equation, Pellingra continues, must happen on all fronts, from consumers to lawmakers, suppliers, packagers and consumer packaged goods (CPG) companies. He notes that some regions are more aware of the environment than others, but that doesn’t mean they are sustainability-savvy. Pellingra uses the example of banning plastic bags, explaining that a life-cycle analysis would clearly show that the lightweighted grocery sacks are a greener alternative to larger and heavier paper bags, the end message being that plastic is bad and paper is good.

“Entirely wrong when the facts are examined,” Pellingra says. “Sadly, this will not change until education improves.”

Along with educating people on the idea of what exactly sustainability is and is not, it will also impact packagers as they become more knowledgeable about the source for their materials, Pellingra adds. Converters can also learn a thing or two about sustainability education as well, particularly when dealing with municipalities with reduced space, as regions impacted by growing concerns with waste removal are often ahead of the curve in minimizing packaging, Pellingra notes.

THE WHOLE WORLD IN YOUR HANDS



Signaling Amcor's intent to grow its presence in China's flexible healthcare packaging market, Amcor opened its

Challenges and roadblocks may arise in globalization, but in what element of business do they not? The fact of the matter, most converters will tell you, is that despite obstacles businesses may encounter, if they can be worked through and around, globalization is a boon for the mature North American flexible packaging industry. For one thing, it opens up a whole new markets for doing business as well as for tapping talent to join companies, talent that will bring with them new technologies, a knowledge base of local culture and potentially a different way of looking at things. And, going a step

converting facility in Zhongshan city (Guandong Province) this past spring.

further, globalization brings companies and customers closer together.

“Success, new business, packaging innovations developed in one part of the world can be quickly and effectively brought to market in another region,” Schloesser notes.

Being close to your customers is essential in serving their needs, and being a global company and building business in even one foreign market means better proximity to clients when converters go global, and can have more than one benefit for converters.

“The closer you can stay aligned with your customers’ markets the better opportunity you have to serve those markets,” says Ampac’s Thomas. “In some cases, it proves to be a cost advantage. In a lot of cases, as we hear today, some of the Asian market is not as justified today as it has been in the past, and as those economic environments evolve it becomes more and more difficult to keep the gap in manufacturing abroad, keeping that advantage. It puts more emphasis on our part to look at the strategy of manufacturing in environments closer to our customers’ plants and less on how much you can save from a labor standpoint.”

As the world continues to seemingly shrink while businesses continue to grow, converters have a wealth of opportunity in front of them when globalization is thrown into the mix. Disney may have been the one to add the tag of it being a small world after all, but the flexible packaging industry is showing just how big getting smaller can be.

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PROTECTIONISM VS. GLOBALIZATION: PULLING BACK OR PUSHING FORWARD?

Global expansion overall is a good thing for business, making the world a smaller place and fulfilling needs in other countries. But there is a question of whether this drive forward will continue among the pockets of political unrest in foreign countries.

In an August 15 article in The New York Times, discussing the Russia-Georgia conflict, writer Paul Krugman notes that “Some analysts tell us not to worry: global economic integration itself protects us against war, they argue, because successful trading economies won’t risk their prosperity by engaging in military adventurism.”

Krugman later writes that many of the nations that play a key role in the global economy don’t share the same democratic values as they do in Western Europe. “Most of us have proceeded on the belief that, at least as far as economics goes, this doesn’t matter—that we can count on world trade continuing to flow freely simply because it’s

so profitable. But that's not a safe assumption," Krugman says in the article.

Additionally, a second Times article from July 30 noted that the ongoing talks at the World Trade Organization collapsed when differences between groups of newly confident and developing nations and established Western economic powers could not be bridged. The collapsed talks confirmed to the trade world that the U.S. continues to lose its ability to impose its will globally, while India and China continue to prosper on the world stage.

The potential (and real) upheaval within countries and their economies playing out more and more begs the question as to whether converters will or should continue on their fast-track to becoming global companies, or will the trend toward globalization do a 180 and become a trend toward nationalization.

So far, the former rather than the latter prevails. And as Norbert Walter, chief economist at Deutsche Bank stated in the second Times article, "It's important to move forward when the world is in a slowdown and is tempted to think of protectionism rather than opening up."

Converters, too, have noted that globalization is still moving forward, and will continue to do so.

"We read about nationalism in the news and we hear about it in politics, particularly in this presidential election year, about protecting jobs, but it's not the global trend," says GALA's, Sank. "Pun intended."

"I haven't seen anything specifically that would lead me to believe there is a scale back," says Amcor's Herbolzheimer. "We have observed an acceleration of customers moving forward with plans to transition their packaging to new locations around world."
