



# LEADER OF THE S PACK

*Just as we dust ourselves off and start adjusting to the new business environment created by the global financial crisis of 2007, we may be headed for another shake-up. Predictions of another financial downturn has business entering a new phase of uncertainty, so just how do we move forward in such an economic environment? asks KAREN SAAD.*

Some finance experts are claiming this uncertain, unpredictable time is the 'new and permanent business environment' and that, over time, it will be accepted as the norm. If you accept this prediction then this new era is set to define the future of businesses, with those succeeding paying attention to the ever-present, critical areas of cash-flow and new opportunities.

One of the most fundamental aspects of business management is maintaining cash flow, short-term cash problems are most certainly the main cause of businesses failing during a GFC. Do cash flow and new opportunities go hand in hand? What impact has the GFC had on Australian manufacturing in the cosmetics and personal care/beauty industry? Nathan Wardell, managing director of Paackserv Pty Ltd, sheds some light on these issues and why he believes the beauty industry as a whole has an optimistic attitude towards the current business environment and, as a result, is achieving spectacular outcomes. Wardell explains "I have worked in the packaging industry for the past fifteen years and noticed a clear shift in the way manufacturers are operating since the GFC with respect to packaging. They are finding new opportunities of real worth to their bottom line and it's refreshing and inspiring to see the growth they are achieving."

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The opportunities Wardell has been witnessing are varied and somewhat surprising responses to the GFC, given the current business environment. Manufacturers are looking at maximising revenue using their staff, facilities and resources in three key areas; traditional sales, manufacturing and internet retail. Whilst this doesn't appear exciting on the surface, Wardell assures me the results are.

As the owner-operator of a short or long-term packaging equipment hire business he sees it all, 'the good, the bad and the ugly'. Wardell explains in this financial climate he is seeing many manufacturers cleverly engineering new strategies that are having a very positive impact on their business revenue and growth. "When they are busy so am I - and they are busy," he says.

## SALES AND PROMOTION

Some beauty industry manufacturers have responded to the GFC by going back to basics and focusing on a more traditional sales and promotion approach, including investing in advertising.

According to Neilson, large businesses that have invested in advertising have reaped the rewards with a growth of 19 per cent in skin care sales and eight per cent in cosmetics and makeup in 2010 and into the first quarter of 2011.

Wardell provides an example of one of his customers who restructured his business in several ways by focusing on sales and promotion strategies. The business employed more dedicated sales representatives to sell the product; they also partnered with like-minded businesses and manufactured alternative products with dual branding on the container labels. This allowed the separate businesses to use their existing sales and marketing channels to sell the product. Finally, this particular customer invested in setting up a distribution division which also utilised their existing marketing channels to sell and promote imported goods. This strategy was implemented very quickly and was a direct response to the changing business environment experienced by many manufacturers in Australia in 2008. Since the implementation of these strategies the business' revenue doubled in 24 months and continues to grow.

## CONTRACT MANUFACTURING

Manufacturers who produce and package their own brand have also introduced

new services to the market by offering contract packaging services for external businesses. This has allowed them to not only continue to produce their own product but also maximise production out-put and revenue by offering smaller volume runs to other labels. Over the past twelve months Wardell has seen many of these contract packing outfits spring up and as a consequence these unassuming contract packers are in high demand and hiring packaging equipment from Wardell to cope with the influx of work. These manufacturers are also on a steep learning curve with production staff discovering that existing equipment and packaging processes in place for their own applications may not be suitable for all incoming work. Wardell says "While many beauty manufacturers have been quick to see and act on this opportunity, they need to have the versatility to trouble-shoot and solve packaging issues quickly to be successful with this transition."

At the opposite end of the spectrum there has been a shift toward smaller beauty industry manufacturers wanting to control growth and costs by downsizing. They are focusing on doing more of the manual work themselves by hiring small, slower-speed bench-top machines rather than investing in purchasing capital-intensive automated production lines, large warehouse premises and extra labour.

## INTERNET RETAIL

Recently Australian *60 Minutes*' journalist Charles Wooley investigated the global phenomena of e-tailing and dubbed it a 'retail revolution' with Australians spending around \$15 billion annually on internet sales. Australia Post also recently announced 70 per cent of the 100 million parcels it delivers nationally is generated by internet-based sales and e-commerce.com.au reported that 'Australian online shoppers are set to spend as much as \$21.7 billion in 2015, up from \$13.6 billion this year.' With reports such as these it's no wonder the retail giants have recognised the opportunity and are quickly generating an on-line retail presence.

The e-tailing trend is fast becoming the new way of shopping with some research indicating almost 70 per cent of consumers prefer to shop on-line rather than visit traditional retail outlets. There is an undeniable convenience of browsing on-line for the time-poor shopper and many businesses are taking advantage of this. It's not always about the shopper

getting the best prices (however this is a big attraction) but also having the ability to browse many cyber-space e-tailer websites and compare and purchase products quickly at any time of the day.

Is this a new opportunity for the beauty manufacturer? Can new beauty businesses use the internet as a platform to launch their own products and gain valuable exposure? It's not too hard to see that with e-tailing becoming an acceptable and popular way to shop, new or smaller businesses have opportunities to compete directly with their much larger and established competitors with a global shopping audience. Clearly there is an exciting opportunity in internet retail for start-up brands; there are no overheads relating to shop leases and retail staff, new businesses can invest in producing a website as professional as their product branding and packaging and they can appear established and therefore fast-track their growth on a global scale. Research shows that on-line shoppers will purchase from anywhere around the world, particularly if shipping is promised within short time frames.

Wardell says many of his new customers operating within the beauty industry are solely internet-based retail businesses. He deals with many customers who have an idea, turn it into a product and sell it on-line. "They hire the equipment to package their product to keep the overheads down and their sales are global."

## OFF-SHORE MANUFACTURING

There was a popular initial reaction to the GFC to move production off-shore in order to reduce manufacturing and packaging costs. This was largely due to low labour costs in regions such as China, a known hot-spot for high volume and fast turn-around times, and Thailand and Malaysia for lower volume stock. Overseas suppliers and services offering cheaper labour force and ambitious time lines saw many manufacturers shifting their product manufacturing and packaging processes.

Wardell explains this option may have been a successful strategy for some but he mostly works with those who did not achieve a cost-saving outcome, rather the opposite. He has seen a dramatic rise in what he terms 're-working of product'. Wardell says "I recall how many of my regular customers reduced their production costs between 2009 and 2010, mostly due to sending their

product overseas to be manufactured and packaged because it was believed to be cheaper than using local resources, but all of sudden the high quality of product and packaging was missing and large volumes of stock had to be re-worked to correct mistakes." Wardell points out that "many manufacturers come to me asking for advice on how to salvage product or packaging whilst correcting a mistake; the most costly have been induction sealing and leakage, and wrong batch or date stamping where entire labels need to be re-printed and re-applied." Manufacturers not satisfied by their overseas suppliers and services were returning the product to be re-worked, often causing delays in going to market and also jeopardising their brand reputation. Customers now tell Wardell they were disillusioned with the 'offshore' option; unforeseen poor quality control, inferior materials and language barriers all contributed to costly mistakes and have ultimately resulted in higher production costs rather than savings. With many local contract packers fighting to retain their large clients, the cost of re-working to gain repeat business was worth it.

Wardell says that there has been a definite shift back to Australian made and produced product within the beauty industry. Do your research; it's about quality as well as a good price," he advises.

Charles Wooley was quoted saying "When the world changes, the smart money changes with it!" It's not all doom and gloom as the new business environment prompts us to re-evaluate the way we conduct business, best practises and services and bottom line costs. There are most certainly great opportunities for existing businesses and many advantages to those businesses introducing their brand and products to the market for the first time. If we forge on and leave the GFC behind us then the only unpredictable threat manufacturers face is from Mother Nature. As natural disasters such as the recent epic Australian floods, earthquakes in New Zealand and tornados in South Pacific regions have been realised, more often than not this Lady poses a bigger ongoing threat to resources and the evolution of manufacturing and business than any GFC! **PB**

*For more information on packaging equipment hire and services contact: Packserv 1300 377 512, email [info@packserv.com.au](mailto:info@packserv.com.au) or visit [www.packserv.com.au](http://www.packserv.com.au)*



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