



CONNECT INDUSTRIES LTD

Investigating the cost benefits of returnable packaging

Tough Economic Times

The benefits of returnable and reusable packaging systems to their users are numerous. Some of these benefits which spring immediately to mind are product protection, ergonomics, potential automated interface, durability, and the reduction of solid waste.

The reality unfortunately is that with the economic challenges companies face today, more and more are forced to look at their bottom line first, and then at the other direct and indirect benefits secondly.

However, by careful consideration, planning and implementation the benefits which can be gained by developing and implementing a returnable packaging system can be realised while still maintaining a healthy bottom line. Many of the companies that have invested in returnable packaging programs have found that they make gains in application benefits as well as cost benefits. But old myths and perceptions tend to linger. The focus of this document is to take a look at returnable packaging program myths, what the truths are, and the ways in which you can determine if such a program is right for your business environment accurately.

Myth: "We can't afford to implement it."

Without the research onto the cost implications it is not possible for an individual or company to accurately determine whether they can afford reusable packing or not.

Consider this scenario: An employee presents a great new idea and proposal about a potential reusable packing supplier, for one of your product lines. Your first instinct is to look at the bottom line and immediately the costs make you think that it is too expensive to consider starting a returnable packaging program for the product in question. Stop! How do you know, really?

What Are You Spending Today?

Who knows? Who signs the purchase and requisition orders? Buying expendable packaging such as wooden pallets, cardboard boxes, packing materials, shrink wrap, packing tape, banding, and self adhesive labels to name but a few is virtually an automatic process for most companies. This is where a cost benefit analysis is required for a new returnable packaging application to be considered as while you buy them and use them once, are they really gone?

On the Receiving End

Well the answer is "No", for you have just given them to your customer along with the products they have ordered from you. The issue then is that all this expendable packaging has to be disposed of and depending on where your customer is located, the disposal method or landfill costs can add up to a significant amount on a yearly basis. When bidding for a renewal or new contract this can make the difference between whether you or a competitor wins.

In addition, your customer will have the direct downstream costs associated with their labour force spending time unpacking the products, then consolidating or segregating the waste, with storing it until either it is collected by their waste disposal contractor or they dispose of it themselves. These costs directly affect your customers ability to compete in their market place and thus your ability to grow through their growth.

Back at Your Business

Having looked at your own requisitions, you now understand your current direct costs for expendable packaging. The next step is to look and identify what your indirect or soft costs associated with expendable packaging are. These may include labour to handle the packaging and move it round your premises, storage costs of the material itself or ancillary costs, for example if using shrink wrap then is a heat gun used? Cost of heat gun, the gas or electricity in its usage, protective gloves for the employee using it as well as the affect on your business insurances for having a flammable process/flammable materials being used in your business.

Let's Talk Quality

Producing quality products produced by your company's hard efforts and shipping them on time to your customer is what creates part of your reputation as a supplier. But it is what your customer receives that will affect your profitability. Does every product that you ship arrive intact and undamaged? What are your company's annual warranty costs? How much of this cost is associated product damaged during the handling and shipping aspects of your business? Would the use of a reusable packaging system reduce such costs? For every product which arrives damaged to your customer there are additional cost implications ranging from the cost of replacing the damaged item, to contract failure fines or the loss of the contract if level of damages are too high and not rectified.

Float

Seriously considering a re-useable packaging system, then the main consideration is what size, or float, of re-useable packaging fleet you will need to support not only your present level of business, but future expansion. What will be the life cycle of each delivery? What quantities of the re-useable packing are in each shipment? How long does it take for the shipment to get to your customer? Does your customer need to have the use of this packaging until they ship the individual goods to their customers and if so for how long? If so, when would you get the packaging back? What quantity for re-useable packaging would you have in use on your premises for the storage of work-in-progress?

Usually the greater the shipping distance, the larger the required packaging fleet will need to be. For in addition the same consideration will need to be made for each customer and customer location you deliver product to.

Unrealized Opportunity

Is a returnable packaging system realistic? Many factors of automated interface opportunities, ergonomic advantages, integrated in-process and outbound material handling processes, along with the ability to increase productivity through increased line speeds and the potential increases in efficiency that may be realised by your company if it moves into a returnable packaging system. While these factors indicate the economic viability of the introduction of a re-usable packaging system, an evaluation of your customers operations and facilities will determine the feasibility of the system. Along with evaluation of the indirect costs associated with the potential lost opportunity of using expendable packaging.

Checking it Once, Checking it Twice

Having started to really consider all the indirect and direct costs you have with your current expendable packaging system, you need to compare these to the proposed re-usable packaging system. Making sure that you are capturing all the costs for each system a checklist will need to be designed ensuring an accurate comparison. Usually all the costs for the expendable packaging are compiled, then multiplied by the expected life span of your product, while the proposed re-usable packing system has a one time, up-front investment cost.

Returnable Packaging Isn't Forever

While re-usable packaging does not suit everyone, and it is not forever, consideration needs to be given to your products projected life cycle. Depending on the feedback from your customers the average life-span for most re-usable packaging systems should be at least five years. During those five years, a level of attrition for your re-usable packing needs to be taken into account. Typically manufacturing organisations allow for between 2% and 5% per year in their budgets to account for the repair or replacement of either damaged, lost, unreturned or stolen packaging. Where your product has an intended production life longer than 5 years, then an additional budget allowance will be required to support your fleet.

Measuring Value Within Your Organization

With the checklist done and all the indirect and direct costs associated with each program identified, then how to factor these costs need to be discussed with your financial staff. Sophisticated financial models are being used more frequently than the comparison of straight cost-to-cost analysis as companies take a longer overall view of each project. Your companies financial staff can create a costing model which will allow you to get a clear comparison of each project through internal rate of return, net present value or payback methodology.

Consideration of the companies expectations for the realistic project payback needs to be made. For while the desirability of a shorter time frame is the goal, most projected payback periods are 3 to 5 years.

On the Balance Sheet

Your financial staff will be looking at your companies balance sheet while you are using the preferred methods of your organization, to analyse each of the packaging systems. For they will be determining where these comparative costs could fall on the balance sheet.

Firstly you have your expendable packaging which is bought on an on-going basis, and typically accounted for as a manufacturing expense. But by comparison, the re-usable

packaging may be financed by an upfront cost which is associated with capital investment and thus subject to depreciation. If the supplier is offering a lease program then this will be accounted for as an operating cost and thus avoid the necessity of capital investment.

Conclusion

While we have dissected some of the myths and lingering perceptions with regards to re-useable or returnable packaging systems, and the methods through which it can be determined if this is the right approach for your environment. Planning and evaluation are paramount to the implementation of a re-useable packaging system. Returnable packaging systems, while not replacing every current use of expendable packaging, are being implemented on more and more products around the world.

While the range of benefits from process integration, product protection and ergonomics all have their part in the decision process, as well as the overall cost benefits of returnable packaging compared to expendable packaging. It is the governmental/corporate drive for Europe to recycle and be green which is having a big impact on which systems companies use. You may be pleasantly surprised when you consider your products and perform an evaluation whether a re-usable packaging system is not only suitable but economically profitable.