

Keynote Address Speech on 9th August 2008

Distinguished leaders of the packaging industry, ladies and gentlemen,

I have been involved with this industry for the last one-and-a-half decades and it gives me great pleasure to be amongst you and deliver this keynote address. The packaging industry growth in India is 2 to 2.3 times GDP growth and hence, generations of entrepreneurs see opportunity in this industry and take the plunge. It is post entry that they realize the extent of competition and the extent of learning involved for success in this industry. Many fall by the wayside and many others keep struggling in the hope of a better future. Yet, many others further compound their problems by expanding without consolidation. As a result, returns remain low and uncertain, latest technology is given the go by the innovation become the casualty. Only a few who are clear on their strategy succeed to some extent. As a result, the industry is not able to come up to global standards in the breadth, depth and speed required for a modern India.

Let us analyze the nature of the problems and come up with a few actionable suggestions for the industry.

1. Structure of Package Converting Industry:

Fragmented, caught between powerful customers and powerful suppliers, both of whom enjoy pricing power over the converter unable to recover cost increases, low to negative returns.

2. Converters dream of very high growth. These dreams are fuelled by machinery manufacturers who feed on “fear” and “greed”. Fear arising out of the fear of being left behind because competition is supposedly ordering new equipment and greed arising out of visions, or rather delusions, of a rapidly expanding market. The expectations are as high as 30 to 40 percent CAGR. The reality is a growth rate of 2 to 2.3 times GDP growth, more around 15 to 20%. High growth expectations lead to reckless additions to capacity. These, in turn, put heavy pressure on the converter to fill capacity post investment leading to running

after volume without building up corresponding competencies and efficiencies. This phenomenon leads to low prices, high wastages and customer rejections. Innovation is forgotten in the race for survival.

What are the solutions?

1. Industry must interact and understand market dynamics, recover proper conversion costs in addition to raw material costs and be judicious in capacity planning.
2. Every Converter has flexibility to innovate an add value; such is the nature of packaging. You do not offer a standard product. You can differentiate and you must actively search out your differentiation platform.
3. Converters must look at models of lab scale prototyping to innovate faster at lower cost and with no loss of capacity.
4. Capacity addition must be based on value addition, and bottom-line rather than mere volume increase. New capacity must address new markets as well as new offerings to existing markets.
5. Addition of new capacity should be followed in due course with decommissioning of old capacity. There should be capacity rollover with all capacity additions.

I would like to give a very important message to our valued customers. Please do not fall into the Lopez syndrome and run out of good suppliers, as General Motors did. It is true that in India, unlike in the US, every time a good supplier dies, a new sucker is born. But the customer loses out on consistency of supplies and innovation and this ultimately lowers the customers' strength in the market place.

What should the areas of innovations be?

Innovation must cover all areas of package conversion and the packaging supply chain. The holistic approach to innovation is fundamental.

Innovation may be in different printing formats and combinations thereof, new finishes, shapes and sizes, active packaging, intelligent packaging, environment friendly packaging, packaging of fresh produce, convenience in use, carry and disposal, and ability to be tracked and traced as per the needs to modern retail supply chains. Innovation can be in systems and service. Innovation can be in new approaches which encourage new thinking from within and without. Innovation can be in new organisation structures where multiple cross teams shape and reshape the future rather than rigid hierarchies.

We must remember that innovation spurs imitation. Unfortunately, in our country, we are more likely to imitate than innovate. I urge the industry not to fall into this trap as imitation results in value destruction for all the players concerned. Moreover, very frequently, one man's meat is another man's poison – the imitator finds, to his dismay, that his competitor's innovation does not bring him joy simply because he misjudged the competencies required for the successful innovation.

Export markets, at times, give better returns than domestic markets. As the converting industry becomes more knowledge driven, more customer centric, more open and more global in thought and approach, it must aggressively seek out global end uses and end users. This will enable the industry to improve returns and become truly world class. In addition, this will improve domestic pricing for the converters.

What can the Government do to help the packaging industry? The industry must be supported by a significant reduction of excise duty. This will enable converters to locate units all over the country with the best logistics. In recent times, raw material prices have almost doubled and hence excise duty collections from the packaging industry have also gone up correspondingly. Hence there is a strong case for bringing down the excise duty rate by 50% without affecting revenue, even on the existing base.

The distinguished speakers who follow will throw light on the latest advances in converting technology. I am sure the deliberations will help you to innovate, improve your operations, become world class and generate returns in line with other leading industries such as the software industry. If the auto component industry done it, if IT has done it and if pharma has done it, so can we in the packaging industry.

Thank you.!