Packaging in SA is always changing shape

By Mark Allix

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If there is one industry where everything is in flux and companies have to re-jig their shapes and formats all the time, it is SA's packaging manufacturers. Apart from constantly changing industry conditions, not least from encroaching rivals, each firm has specific obstacles to get over.

This means companies need to be flexible and nimble in their approach to markets.

Astrapak's Robin Moore says that the company has had a tough year but is on track to return to profitability in the months ahead. Image: Astrapak

There are the seasonal changes, such as in fruit packaging, and new technologies and packaging methods are constantly arriving. Then there is macroeconomic volatility, including foreign exchange rates and inflation, which affect fixed business costs such as electricity, transport fuels, and port charges.

According to global chemicals company DuPont, which is involved in the research and development of industrial polymers, packaging plays a big role in preventing food loss and waste. This varies greatly from country to country due to climatic factors, and requires packaging solutions tailored to each region and in some cases, each category of food.

To stay abreast of the competition, one of SA's smaller listed plastics makers, Astrapak, says it focuses on service, innovation and technology in packaging. Astrapak and its subsidiaries, headquartered in Johannesburg's industrial south, make an extensive range of plastic packaging products.

With annual turnover of about R2.5bn, the group has factories in all the main centres of SA. It makes films and rigid products, mainly for the food, beverage, personal care, pharmaceutical, agricultural, and industrial and retail markets.

But nothing stays the same from one day to the next: a fact that industrial insurers will attest to. In January last year, a fire broke out at the group's East Rand Plastics facility. The widespread damage meant Astrapak had to outsource some of its production, use intergroup capacities and recommission mothballed equipment.

The group was already in the midst of a two-year reorganisation, meant to eliminate under-performance and create sustainable operations of scale. To this end it has revamped operations into divisional units to realise synergies across customers, technologies, and procurement and supply chains. But the blaze at its Brakpan plant helped the company to a comprehensive loss for the year to February of R73.6m.

However, Chief Executive Robin Moore says the group has made big changes and a new operational and leadership structure is in place.

Mpact's Bruce Strong believes that packaging companies must maintain flexibility in the competitive packaging arena. Image: Mpact

Mpact, the former packaging division of forest products group Mondi, saw headline earnings per share shoot up 22.2% in the year to December, as revenue rose 12.9%. This was attributable mainly to volume growth in the plastics business and higher average selling prices.

The company is one of the largest paper and plastics packaging businesses in southern Africa. But while it saw a solid operating performance in the period underpinned by a sound strategy, subdued demand growth in SA and possible further increases in raw material costs - driven by SA's poor exchange rate - may further manifest themselves this year.

Chief Executive Bruce Strong says the group has benefited from packaging South African fruit exports. Good crop yields and a weaker rand have seen good returns and made it a vital revenue stream for the group. But problems with black spot disease affects certain of SA's citrus exports to Europe, although Strong says the season is over and Mpact has not been affected.

This week, the European Union strengthened rules on citrus fruit imports from SA after a high number of interceptions last year. But Mpact says it has quite a bit of faith in local fruit producers who are looking for alternative markets. The group has also been affected by labour disruptions in SA. Transport strikes affected the company, while miners are buy packaged goods including beverages and fruits.

Nampak's Andre de Ruyter says that its Africa operations will soon contribute about 50% of Nampak's total profits. Image: Financial Results

Mpact's plastics division is also exposed to the rising cost of imported polymers, along with rising wages, and the upward climb of electricity and transport fuel prices. But Strong says the group has reined in fixed costs and has to continue doing that, by optimising supply chain processes and group insurances.

Mpact recycles packaging paper, saving up to 50% on using virgin pulp. This is used to make more packaging paper, including moulded fibre trays and boxes for transporting goods such as eggs and apples. "Recycled paper makes up 70% of the raw materials going into the paper we produce," says Strong.

Nampak, Africa's largest packaging group, has bolstered its presence in Nigeria with a billion-can-a-year beverage line. This should help rest-of-Africa profits to soon reach 50% of the group total, from about half that now.

Chief Executive André de Ruyter says margins in the rest of Africa are strong. It has been making glass, paper, metals and plastics products on the continent for a long while. Its beverage operation in Angola is increasing production to 1.7bn cans a year, up from nearly 800m now. It also operates in Tanzania, Kenya, Malawi, Mozambique, Zambia and the Southern African Customs Union.

Source: Business Day via I-Net Bridge