Outsourcing the Packaging Function

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If you are currently working in the packaging department of a major corporation in the pharmaceutical, food or consumer products industry, you have probably been exposed to some form of outsourcing, which is a global trend that has emerged over the past decade, and continues to evolve, within the packaging field. By definition, there are two major categories of outsourcing in packaging: One involves outsourcing the physical packaging process – also known as product packaging – via use of co-packers, equipment manufacturers and/or various product based companies. The other involves outsourcing the packaging services or functions, via use of contractors, consultants and/or newly-evolved Packaging Outsource Service Providers.

To help you gain a better understanding of outsourcing the packaging services or functions, and the current evolution of this global trend, this article will discuss the existence and importance of the market for outsourcing services in packaging; current outsourcing practices, namely the process, advantages and disadvantages; the evolution of this outsourcing; and the direction of new opportunity in future markets.

Why is it important to you, as a packaging professional, to gain a better understanding of outsourcing the packaging function? Why is it important to your packaging department, your company and the industry in general? In seeking the answers to these questions, an independent research study was conducted of 500 randomly selected packaging professionals from a variety of major corporations. The purpose of the study was: 1) to ascertain if a market of outsourcing packaging services does exist and is being used to support packaging departments of major corporations; 2) to learn how this market is perceived by the packaging community; and 3) to examine the future evolution of this market.

Let’s analyze the results. Most packaging professionals (over 65 percent) reported that they are exposed to third-party employees that are used to support various services within their department. Over 50 percent of the responses indicated that many packaging services within most packaging departments (maybe even yours?) are already being partially supported by contract employees. The market for these services does exist, and support services are being used today. How much do you know about the outsourcing of these services?

Outsourcing is perceived, by most packaging professionals (over 90 percent), as a positive means of providing support. Most major corporations with a well-defined packaging strategy also have a team of dedicated full-time packaging engineers, who are working diligently on the packaging function, being that it is critical to the marketing and selling of brands and products. However, as more corporations move toward a “more-work-to-less-head-count” ratio, most packaging professionals will admit that there is always more work to be done than people to do it! The result is that a full-time packaging department needs some level of ongoing support. Outsourcing of services is a recognized part of a company’s corporate strategy in dealing with packaging. How much do you know about the outsourcing of these services?

As with any evolving trend or technology in your field, the more you know about the methods, advantages and disadvantages, the greater an asset you are to your department, your company and your industry as a whole. Just knowing the importance and existence of outsourcing still does not address how to take advantage of this ever-expanding market. We know that major corporations are using contract employees and consultants, but we need to know how these relate to a company’s current and future outsourcing practices. If you are going to create a more strategic relationship that provides outsourcing of packaging functions, then you first need to define the functions that need on-going support, and then find the type of organization that can provide the consistent quantity and quality of support you need. How does a company begin the process of outsourcing the packaging functions?

The process begins with defining a need for on-going support services in one or more of the following main packaging functions: development, engineering, design, graphics, R&D laboratory and/or project management. This requires your department and company to evaluate each function and determine how it can become a better function. It is important to work as a team within your organization when defining needs, and it is critical to assure that there is no blame, only through a harmonious and cooperative assessment can you begin planning a positive strategy. Next, you will want to partner with an organization that provides a team of packaging engineers to major corporations to operate, manage and provide support to one or more of the
packaging functions mentioned above. What are your options? An individual contractor, consultant or a small contract agency may provide assistance, but the knowledge and resources of one person, or a small group, are limited, and the focus would be on temporarily filling a need. A temporary agency may provide assistance, but the focus of such an agency would be to add to your full-time head-count, not support a function on an ongoing basis. Instead, you must find an organization that will use a group of highly-qualified professionals to operate, manage and support one or more packaging functions, while providing an avenue for your company to increase efficiency, productivity and product growth. In other words, you need to find and partner with a Packaging Outsource Service Provider (POSP).

A POSP is a corporate entity with at least 30 full-time employees, and several part-time consultants whom are well compensated and have a comprehensive benefits package. This results in a high retention and low turnover of engineers within the POSP organization, which equates to more stability in supporting your packaging department. POSP employees are diverse, dedicated, degreed packaging professionals with a multi-industry background and anywhere from one to 25+ years of experience. This results in a vast knowledge base to resolve nearly all of your packaging issues within a function. Most importantly, the POSP is set-up to work as part of a team. Each engineer is able to rely on the experience and knowledge of all other employees of the company, which results in a dynamic resource base. These stability, knowledge and resource bases are a few of many powerful advantages that a POSP can offer your company.

Once you have researched and found an appropriate POSP, you will need to work with that company to plan, introduce, implement and manage a new outsourced business relationship. This is different than simply filling a temporary position or requesting support on a specific project. The intention is long-term, and the relationship must be a mutually-beneficial business relationship.

A key component to understanding the process of outsourcing the packaging function is to analyze the advantages and disadvantages. For your packaging department and your company, outsourcing provides an avenue for productivity and product growth by allowing the main concentration of a corporation to be shifted to increasing production and sales, while allowing the packaging function to be operated and managed by a POSP that specializes in the field of packaging services.

Another advantage is the flexibility to add, move and remove support engineers, from specific projects and specific packaging functions, without layoffs, in order to respond to variations in economic conditions. This is possible because the responsibility of the engineer, as an employee, rests completely on the POSP, but the decision on how to best utilize the POSP rests completely with the corporation.

There are advantages for your HR department as well, because the recruitment effort for support engineers is also the responsibility of the POSP. While the corporation always has the final decision as to whether or not an engineer “fits the bill,” the task of finding, contacting, pre-screening, pre-qualification, background checks, negotiating compensation and benefits and employee training is the duty of the service provider.

With the increased productivity, flexibility and recruitment effort provided by outsourcing the packaging function, for most companies, the advantages far outweigh the disadvantages. However, in the interest of presenting both sides of the coin, let’s take a look at a few disadvantages of this scenario.

One disadvantage is that usually only major corporations can justify the cost associated with using a high-quality packaging services provider. The advantages above, especially with regard to flexibility and movement among engineers, without having to worry about layoffs, severance packages, pension payouts, etc., comes at a price; and for some smaller- and medium-sized companies, the price is sometimes too high. The good news is that as POSPs are being used more in the current market, most are able to adapt and work within any company’s budgetary constraints. Another disadvantage of outsourcing is that in the current market, there are not many packaging service providers that are large enough to provide an entire team of engineers, to adequately operate, manage and support an entire packaging function. This means that until more POSPs come on the scene, major corporations have to rely on a few existing service providers, and that adequate research must first be done to assure that those service providers can fulfill the needs of the customer.

The good news is that with a little time spent on research and some reference checks, major corporations can quickly find and evaluate whether or not a company really is a POSP and if that company can meet their needs.

It is obvious that the market for outsourcing packaging services exists, that you can find ways to take advantage of this market and that the advantages far outweigh the disadvantages. What does the future hold for this market? While the future is unpredictable, what we do know is that the current trend of major corporations is to outsource part of their packaging function. Based on this fact, one can only assume that more POSPs will be available in the future, which will encourage more competition and allow corporations to choose the provider that best suits their needs. Further guidance is available from the foremost experts in the field, as they are commonly used as lecturers on this topic, and their presentations are commonly given at various trade-shows and conferences.

As with any evolving trend or technology in the packaging industry, those professionals who are on the forefront of the trend – charged with setting the methods, defining the advantages and eliminating the disadvantages of the trend – are the greatest asset to a packaging department, a corporation’s packaging strategy and the industry as a whole. This article has attempted to give you a better understanding of the present and future impact of this trend. Now it’s up to you to take the steps necessary to make this trend into a reality that will provide a benefit to your company.

Rihaz Z Chughatta is a highly respected authority in the field of outsourcing packaging services. He is the Executive Vice President of Equity Packaging Inc., one of the top global packaging development and engineering outsourcing firms. His strengths and experience include introducing, planning, implementing and managing new outsourced business relationships with customers in the corporate and government sectors. He typically works with a variety of multi-functional teams to develop the best strategies for outsourcing of various packaging functions; these teams include (but are not limited to) senior management, marketing, human resources, engineering, operations and administration.

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