# *Do you require a packaging supplier or a packaging partner?*

# *Why using a Value Added Service Supplier (VASS) for your Packaging Management?*

## *Executive summary*

Manufacturers and distributors play different roles in the markets they serve.

A manufacturer's main role is to create or assemble the product. A distributor helps to get the product to the right places. Both are important activities, but both of these parties can create inefficiency in the supply chain. The phrase "a distributor is just another mouth to feed" reflects some of this inefficiency. In some industries, however, another type of player called a "Value Added Service Supplier" (VASS) has emerged. A VASS partners up well with manufacturers, addressing their limitations, and offer additional benefit to customers. We welcome you and are glad to introduce and describe our business model to you, which shows how a VASS supplier can add tremendous value to a company's supply chain and bottom line. We call it "Packaging Management from Another Perspective".

## *Introduction*

In most industries multiple players are involved in getting the product to the end customer. For years, manufacturers and distributors have each played important roles in keeping store shelves stocked with the right packages. But each of these players can create bias and inefficiency in the supply chain.

Manufacturers are good at making things. But they really like making lots of one thing, selling them to you immediately, and keeping their machines running all the time. Distributors add flexibility to the supply chain by breaking bulk and warehousing products. But distributors face headwinds. Statements like "A distributor is just another mouth to feed" and "I don't do business with distributors" are made every day, and understandably so. Distributors are "middlemen" and often don't provide in value what they take in profits.

As customers look to squeeze out inefficiency and get more services for their money, a new "value added service supplier" model has emerged. Value added service suppliers take the best elements of manufacturers and distributors and eliminate their potential biases and inefficiencies.

First, however, we address the fundamental question of why intermediaries are needed at all.

# Complex markets need intermediaries

Markets with many participants – that is, with many sellers and many buyers – are complex. These complex markets often require special mechanisms to run efficiently.

The packaging market provides a great illustration. A lot of packaging is bought by a small group of bigger companies. Because of the massive scale of their purchasing, companies like these have direct relationships with the largest packaging manufacturers for their flagship products.

But a huge volume of packaging and a vast number of purchase scenarios are not subject to this direct relationship model. For instance:

- There are emerging customers (each with little purchasing power) that want to buy from big packaging manufacturers (who don't have the time to serve the small companies).
- There are emerging customers that want to buy from smaller, niche packaging manufacturers (who may not have the resources to provide all the services needed).
- There are larger customers with unique needs that are best served by specialty packaging manufacturers (but they may have difficulty finding the right ones).

As a result, thousands of customers and hundreds of manufacturers benefit from having intermediaries in the packaging market. Packaging distributors were acting as market facilitators.

But this doesn't mean that packaging distributors are the best answer. Indeed, packaging distributors are sometimes unsophisticated and add little help for the fees they charge. The smart supply chain executive may see that doing business with a distributor can be a mistake. And the same executive may also see some pitfalls in how manufacturers approach their business. To make this case clear, we will describe each of the players in the supply chain, starting with the manufacturers.

# The traditional manufacturer

A traditional manufacturer owns assets – machines and buildings – to generate the output ordered by its customers. These manufacturers are usually expert at selecting the proper machine platform, materials and location to produce an order and in running their machine the most efficient way.

A manufacturer's tangible assets represent a huge amount of invested capital. It's common that the total property, plant and equipment represents over 30% of the total assets of a manufacturer. As a consequence, a manufacturer wants to reach the highest return on these assets.

This creates some bias and inefficiency that can be at odds with the best interests of the customer. To get the highest return on assets, the manufacturer wants to run his machines all the time with minimal downtime. For the customer, this means either buying a stock product (which doesn't help the customer to stand out in the market) or committing to long production runs or inopportune lead times. And since the manufacturer has so much capital tied up, he's reluctant to add more buildings to house inventory for customers (even for a limited time). So he wants to ship the product as soon as it comes off the production line (make to order). For most customers, this is not ideal because this means they have to invest in warehousing and bear extensive inventory, carrying costs with negative impacts on the cash flow. Furthermore, in their efforts to achieve maximum efficiency, manufacturers tend to cut back on value added services.

# The traditional distributor

A traditional distributor "breaks bulk." They make one large purchase (allowing the manufacturer to enjoy long production runs), and then they break up these truckloads/pallets/cases and make many smaller "sells" from this one purchase. This model adds value by creating convenient quantities and by having items in stock. These intermediaries mostly earn modest profit margins.

Distributors capitalize on the inefficiencies of the market. The problem for buyers is that not all distributors are acting in your best interest. They want to sell you what they have in stock. After all, having all that cash tied up in inventory and buildings is expensive.

Distributors live deal-to-deal and, notwithstanding the margins they earn, are usually running a precarious business.

As a result, most distributors either resist or have trouble investing for the future. They generally don't innovate or look for ways to offer their customers something more than a slightly better proposal than a manufacturer does.

# *The modern 'Value Added Service Supplier' (VASS)*

In our view the term "added value" means combining various elements into an optimum mix.

The fog in which traditional manufacturers and distributors operate, a VASS is a beacon for the customer. A VASS combines the best of what manufacturers and distributors have to offer along with services and customer care that help boost their customers' bottom-line growth. And they do so without the constraints often displayed by the traditional participants.

A VASS brings together three fundamental elements that makes him indispensable in the supply chain:

### Firstly, they have the best qualities of a manufacturer.

They are highly trained product experts; they oversee production; they can engineer custom solutions; they have in-house quality teams. A VASS supplier, however, doesn't own manufacturing assets and machines. Instead, they contract out manufacturing to the manufacturer best suited for the project. This means that a VASS doesn't have to bother about how to keep a particular machine running or to try to force-fit customers into buying products that are currently available. As a result, a VASS supplier effectively has unlimited capacity and is not handcuffed to any specific technology or equipment or tools.

### Secondly, he offers distribution and logistics services.

He has warehousing facilities; he manages inventory, handles inbound and outbound logistics and delivers whenever you need it. A VASS supplier goes beyond the traditional distributor model with superior inventory acumen and proven operational excellence. A VASS seeks to lower total system costs by consolidating inventory across the entire supply chain, including taking inventory off customers' floors. A VASS has a core competence in inventory management that can help customers to control inventory levels and expenses and can deliver to customers on a just-in-time basis.

### Thirdly, he provides extra services and value-added offerings.

He considers ways to improve his customers' revenues, lower his customers' costs, and improve his suppliers' results as well. Every sector will have a different set of opportunities that a VASS will embrace. A good example of these extra services is our business concept called "Outsourcing".

You often see that manufacturers and distributors have conflicting interests. There are even distributors with the ambition to compete with manufacturers, although the competition is mainly focussed on price issues only.

A VASS and a manufacturer complement one another and they respect each other's skills and strengths, so instead of competing they work together and challenge each other in order to serve the final customer in the best possible way. The VASS enables the manufacturer to maintain the preferred philosophy (make to order) and the VASS manages the inventory for its customers by a proactive make to stock philosophy.

So, a VASS goes far beyond a classic manufacturer or distributor. The difference is defined by his price tag and his expertise and position. A VASS embraces innovation, efficiency and has a dedicated focus on customer satisfaction.

## *A VASS doesn't sell (packaging) products, but primary offers supply chain solutions*

A VASS can transform industries. Integrating an outsourcing partner into the supply chain can yield great benefits.

- Taking assets off your balance sheet: With expansive logistics networks, a VASS can hold inventory and deliver products whenever you need them. Reducing total inventory cost by removing inventory from your balance sheet frees up cash flow (no more working capital in empty packaging), eliminates costs for external warehousing and reduces the risk of obsolescence (no stock depreciation).

- Taking expenses off your income statement: Moving inventory to another party also has the benefit of freeing up resources that used to be involved in storage, handling, insuring, and administration of the inventory (supplier reduction). This cost avoidance can be dropped to your bottom line (inventory is a drain on cash and space).

- Accumulating volume to lower purchasing costs: With greater buying power achieved by consolidating volume from many customers, a VASS supplier can offer you much better conditions.

- Adding flexibility and speed to market: A VASS has a lower minimum order size and has in-stock availability. This allows a faster time-to-market for you and your customers.

- Guaranteeing supply: Through inventory management and multi-sourced products, a VASS can provide nonstop supply assurance that is often not available from manufacturers or distributors.

- Providing tailor-made services and coordination: For customers requiring multiple manufacturers and agents, consolidation can be your solution to a smooth-running supply chain, with a reduction of fluctuations in quality and keeping accountable records.

## Summary

The saying is that “companies don’t compete, supply chains compete.” It is therefore necessary to make your supply chain as powerful as possible by getting rid of inefficient and potentially biased manufacturers and distributors. Thereby the Total Cost of Ownership approach is leading. Indeed, the purchasing spend on all of your packaging is not the same as what packaging costs you! The supply chain mostly suffers from too many suppliers, too many items and overly built infrastructures. Packaging is often a large contributor to this complexity.

Consolidation with an outsourcing partner as Bark Verpakkingen B.V. can yield benefits in total packaging costs, infrastructure and materials flow, quality and management focus by achieving a leaner, more robust and more profitable supply chain.

A VASS can help you boost your bottom line, because it brings together the best elements of manufacturers, provide top distribution and logistics services, and also deliver a suite of value-added services. One call does it all. Challenge us!