



The JKT Financial Group, LLC

After a relatively long period of flat paperboard and linerboard pricing, the markets have edged up, and packaging suppliers have begun pushing their customers for price increases. The core team of The JKT Financial Group (JKT), a specialized Packaging Spend Optimization consultancy, has recently received numerous calls seeking guidance on dealing with these impending increases. JKT is pleased to share three recommendations for companies with significant corrugated or folding carton spend to address impending price increases.

- 1) **The easiest path forward may not be the best path forward:** Some companies are reporting that suppliers are asking for 7% to 10% price increases. When a company is presented with a request for such a large price increase, it should resist the temptation to simply settle quickly on a smaller one (3% or 4%) and move on. These raw material price movements can be viewed as either a challenge or an opportunity--JKT firmly believes they present an opportunity. Packaging suppliers are looking to increase prices on existing business; but new, incremental business is different, and the marketplace for new packaging volume is highly competitive and ripe for Packaging Spend Optimization. Now is the time to look closely at your corrugated and folding carton spend from the perspective of “how we can reduce costs by 10% rather than accept a 4% increase?” Who wouldn’t prefer a 14% positive swing (10% reduction plus 4% avoidance) in these uncertain economic and political times? JKT can help your company bring to bear the more powerful forces of supplier plant-level capacity availability, production capabilities, efficiencies, and competition to counteract market price increases.
- 2) **Check your agreement:** Many companies have escalator / de-escalator clauses in their supply agreements that codify the mechanics of their packaging price changes due to market movement. Make sure suppliers adhere to them. Due to changes in account management or procurement personnel, the parties may be unaware of the escalator / de-escalator terms, so find and read the agreements carefully, and be prepared. For many reasons, some companies do not have clear escalator / de-escalator language in their supply agreements, and some companies do not even have detailed supply agreements beyond price. In these instances, a supplier’s request for a price increase typically devolves into a dynamic negotiation. This advantages the suppliers as the discussions and negotiations focus on how much the increase will be and what the buyer must “give up” to minimize member, what suppliers are really looking for is to extend their existing business at prices more favorable to them.



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- 3) **To offset a paper price increase, reduce the amount of paper in your packaging:** While this sounds exceptionally challenging, in practice it is quite possible. Box Weight Optimization considers the true functional performance requirements of a package and compares that to the current specifications. ACG has found that, in many cases, boxes are simply “overspec’d”, especially given the advent and expanded use of high performance paper and custom linerboard combinations. From an engineering perspective, it is possible to reduce paper while maintaining functional strength. Depending on the type, finish, and purchase volume of your box, the paper can be 65% to 80% of the cost. Reducing the amount of paper in a box by 10% could produce a 6.5% to 8% cost savings.

JKT helps companies rapidly identify and capture significant packaging savings and performance improvement opportunities. The JKT team combines packaging industry and technical expertise with procurement and consulting expertise to generate significant, sustainable results for our clients. For additional information on managing price increases and on generating short term and long term packaging savings, please email us at inquiries@jktrust.net so we may arrange a call with one of our specialists.