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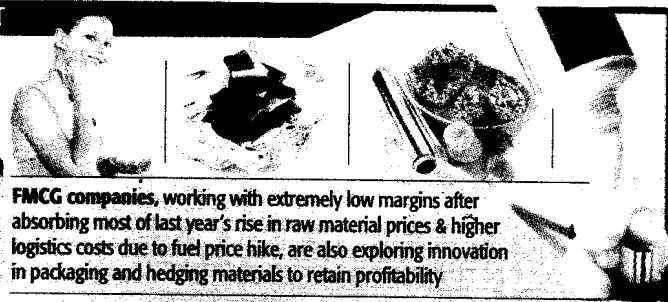
BUSINESS OF BRANDS

FMCG firms facing package ordeal

Prices Of Packaging Materials Up By 25% During Past Three Months

MOVING FAST

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A SHARP surge in packaging costs is tormenting consumer product marketers, squeezing their margins and forcing them to consider increasing prices of processed food and some other products in a cut-throat market, company sources say.

Prices of packaging materials such as aluminium foil, kraft paper, adhesives for corrugated boxes and packaging plastics have increased up to 25% in the last three months, forcing companies such as Marico and Dabur to talk price hike in a marketplace where increasing prices and cutting advertising spends could prove fatal.

"We believe that any expansion of current margins is not sustainable for long-term volume growth," said Saugata Gupta, CEO consumer products business of Marico. "There will be some moderate inflation in prices," he added.

FMCG companies, working with extremely low margins after absorbing most of last year's rise in raw material prices and higher logistics costs due to fuel price hike, are also exploring innovation in packaging and hedging materials to retain profitability.

Some analysts expect companies to cut internal and advertising costs for some time before hiking prices in the second quarter of the next fiscal.

"In the current scenario FMCG companies will exercise options like trimming internal costs, hedging in the packaging materials or cut

down advertent & promotional expenses for a quarter if they are not launching any new products," says Shirish Pardeshi, senior analyst at Anand Rathi Securities.

He added that companies may increase prices after first quarter of 2010-11.

A Dabur India official said while the compa-

Companies are also exploring innovation in packaging. Shyam Sunder, senior design manager at IDE (Innovation Design Engineering) division of Tata ELXSI, said many FMCG companies now demand for smarter and cost-efficient packaging solutions.

Packaging costs typically account of 8-10% of the total costs in a FMCG company. According to Marico's Gupta, rising material prices have increased packaging costs about 7-8 % year-on-year. This will rise if the administered fuel prices policy is scrapped, he added.

The government is reported to be working to end fuel subsidies let market forces decide the pricing.

The prices of corrugated boxes have increased 25-30% in last quarter because of low availability of kraft paper.

"Since we are mere processors, we have passed the price hike to consumer goods and other companies who are using our products," said Baldev Mehta, president, Western India Corrugated Box Manufacturers Association (WICMA).

Godrej Consumer Products (GCPL) and Wipro Consumer Care and Lightning (WCCL) declined to comment on the issue, and an email sent to Hindustan Unilever (HUL) was yet to get a response till the time of going to the press.

An HUL official said the firm's bottom line has been dented due to mounting costs, branding expenses and the demanding nature of consumers. That's the story of every FMCG company. It may take them a while to say bottoms up.

SOMETHING NEW

Companies are also exploring innovation in packaging. Many FMCG companies are now going for smarter and cost-efficient packaging solutions

ny has absorbed higher packaging costs so far, it may increase prices in some categories if costs rise further.

"We are finding it a bit difficult to procure our requirement in the corrugated box and paper segment. However, we have enough hedging contracts in place for packaging materials such as plastics and kraft paper," said Jude Magima, executive director-supply management at Dabur India.

Also, an easing of the prices of sugar and other such commodity has helped the company absorb higher packaging costs, he said. "But if prices of packaging material go up further from these points, we might have to consider increasing the prices in some categories."