



CONSTANT PROGRESS

In our last issue, we turned the spotlight on Constantia Flexibles' pharmaceutical packaging business. This month we take a look at the group's food division, which provides flexible packaging solutions in foil and film for dairy products, dried goods and more. Tom Albrighton spoke to Gerhard Cislinsky, Director for Sales Controlling and Communications, and Fritz Humer, Sales and Marketing Director for Food Packaging, to learn more.

Constantia Flexibles uses aluminium, paper and plastics to create packaging materials across three divisions: food (our focus in this article), beverages and labels (led by H&N) and pharma. The group includes Austrian Teich Group and Germany-based Haendler & Natermann Group and, since late 2006, Constantia Hueck Folien. Since the last time we spoke to Constantia, in our previous issue, the contract to acquire Hueck has been finalised, adding significant resources and turnover to the pharmaceutical division in particular. The deal takes the total number of facilities within Constantia Flexibles to 35; it also paves the way for the group to rebrand all its assets.

"It's always been part of the Constantia philosophy to be as decentralised as possible on one hand, and as centralised as necessary on the other," notes Gerhard Cislinsky. "Right now, we're implementing an umbrella brand across all group companies, legally renaming each component business as, for example, 'Constantia Hueck Folien'. We're growing rapidly, particularly in our strategic markets, and the challenge for us is to integrate our new acquisitions smoothly. So far, it's going fine."

The Hueck deal represents an almost perfect synergy between two packaging groups. Moreover, it restores an even balance in terms of turnover between the three divisions of Constantia Flexibles. "Constantia Hueck

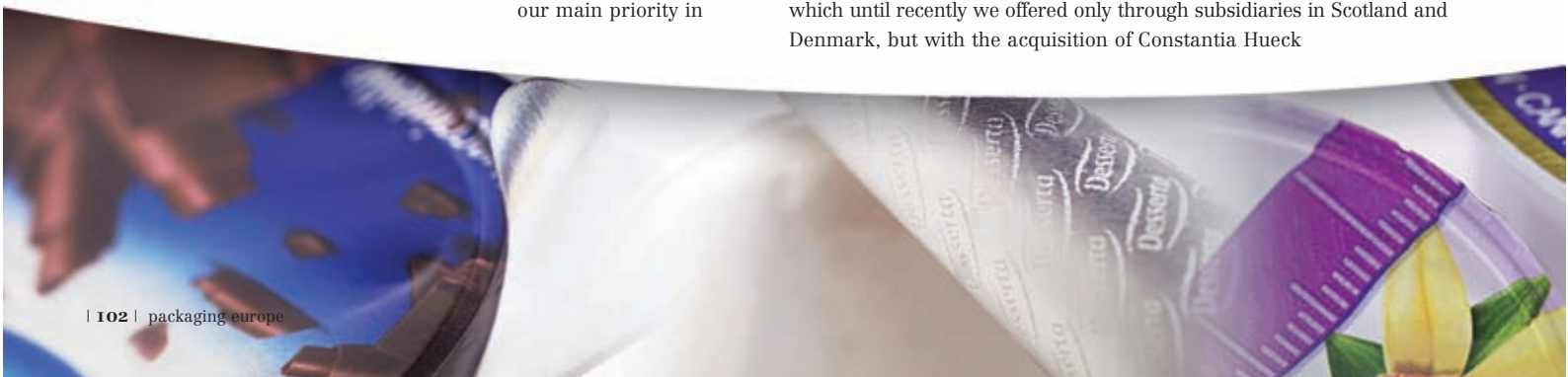
Folien's business is in pharma, food and beverages and labels too, so it really is the perfect fit for us, although our main priority in

making the deal was to boost the pharma side," comments Gerhard. Constantia has also recently acquired Polish firm Constantia ColorCap, which is focused on die-cut lidding.

Focus on foods

Fritz Humer provides an overview of Constantia's offering to the food industry. "We divide our food business into two areas: dairy and non-dairy, with turnover split roughly equally between the two. In dairy, our main product area is lidding materials for yoghurts in foil, plastics and plastic/ paper combinations. Then we offer wrappers for butter and margarine, in both laminated foil and paper, and foils for wrapping processed cheese and some modified-atmosphere packaging for maturing cheese. In non-dairy, which we usually simply call 'food', we focus mainly on confectionery and dried mixes. We provide plain and embossed tablet foil for chocolate bars, including an innovative thermo-lacquered foil for insect resistance, along with printed thin foil for wrapping hollow chocolate figures such as Easter bunnies, Santa Clauses and so on. We also make inner and outer wrappers and blister foils for chewing gum. On the dried food side, we provide material for pouches for soups, sauces, noodles, dried pasta and entree mixes."

"An important area for the future is film packaging for confectionery, which until recently we offered only through subsidiaries in Scotland and Denmark, but with the acquisition of Constantia Hueck





Folien we also have in central Europe,” he continues. “We plan to focus on added-value niches such as duplex-laminated cold-seal films, as used for products such as Ritter Sport.”

Strength in foil

Constantia owns its own aluminium rolling mills in Austria, giving it a vertically integrated operation for foil-based packaging materials and a quality advantage over rivals who buy on the open market. A newly constructed rolling mill will give the capability to roll foils in widths up to 1800mm, as well as increasing capacity overall. “It really is the premier state-of-the-art rolling mill in Europe,” enthuses Gerhard Cislinsky. “The winter of 2005/2006 was a really terrible one in Austria and we lost more than two months’ construction time, but we made it up over the course of 2006 and on December 15 the first coil ran through. It worked perfectly!”

Having integrated foil facilities has naturally tilted the balance towards foils rather than film in past years, but that could now change. “With the Constantia Hueck Folien acquisition, one of our targets is to build up the film side,” says Fritz Humer.

Customer-wise, the profile is slightly different for the dairy and non-dairy segments. “On the dairy side, the market is more fragmented, with lots of small local dairies,” explains Fritz. “There are some multinational players, including Danone and Müller, but in general our customer base is fairly widespread. In confectionery there’s a balance – you’ve got the big players like Lindt and Kraft, but also some small local specialists. In dried foods there is heavier concentration – ten groups, including Nestlé, Knorr, McCormick and so on control perhaps 95% of the European market – and we tend to focus on the larger end of the market.”

Big enough to dare, small enough to care

In our previous look at Constantia, we touched on the group’s characterisation as “both big and small enough” – boasting enough production muscle to partner multinationals, but retaining enough agility to react quickly. Fritz Humer

relates the theme to the food division. “It’s one of our key beliefs that we need the size to react on a global basis, or at least a European basis – food is less globalised than pharmaceuticals – but at the same time you have to be very close to the customer. If you can’t manage that, you’ve lost.”

“However, historically there’s always been a mismatch between the facilities that we have in the packaging industry and the requirements of the food market,” he observes. “The market wants short times to market, small print runs, wide product variety, just-in-time delivery with no stock held, integrated logistics and so on. But the flexible packaging industry traditionally uses big laminating and printing machines. Our strategy now is to overcome this conflict.”

Constantia’s solution is to divide production into two discrete steps: large-scale conversion of base materials into pre-materials, including foil rolling and lamination or lacquering, and smaller-scale, short-run printing and finishing. “That way, we can get rid of our ‘dinosaurs’ in printing and finishing, replacing them with smaller machines that are ready to meet customer demands in short timescales,” Fritz points out. “Over the last few years we’ve equipped ourselves with smaller UV flexographic presses, initially in Austria and then throughout the group. The next step is to do the same with rotogravure presses: we’ve invested in new presses in Russia, Poland and Austria, and others will follow.”

“We’ve also developed new quality standards in Austria that have now been rolled out across the whole group,” adds Gerhard Cislinsky. “Soon, >





market like Eastern Europe. If you bring in more capacity, you provoke a price war and quality falls by the wayside. That's bad for the industry and its customers too, and low price is not what we're about anyway."

Dedicated to innovation

Fritz Humer explains Constantia's approach to innovation in the food division. "Innovation is vital for us in the food market," he says. "If you don't come up with new products and solutions, you're dead. For us, innovation is concentrated on developing new packaging materials to help customers by increasing the speed of their lines, reducing costs or improving quality in terms of barrier properties and so on."

"We work both reactively, on behalf of customers, and proactively on our own initiative as well," he adds. "Over the last year, we've succeeded in institutionalising our innovation methodologies with a permanent group dedicated solely to innovation, looking at what is happening in markets around the world. In the past, we had just a standard R&D department."

He provides a couple of examples of Constantia innovations. "For Unilever, we developed a low-sealing coating for lidding film that prevents PP yoghurt pots from being deformed when the lid is sealed with heat. Sealing requires temperatures of 200°C or higher, and pots can easily get bent out of shape, particularly if their walls are already very thin to save on material costs. At worst, the snap-on lids simply fall off. With our low-sealing membrane, the client can seal at 140–150°C, avoiding the deformation and energy costs too. This solution won us an innovation award, the EAFA-Trophy."

"Another innovation is a cheese wrapper called DanaKeep that allows white-mould cheeses such as Brie, Camembert, etc to mature in the package," he continues. "It was developed by our subsidiary, Danapak, on its own behalf, and has been received relatively well considering how conservative the cheese market is, particularly in France. It's doing well in Denmark and central Europe; France may take a little longer to adopt it."

The future in food

Fritz Humer offers his thoughts on the future for his division. "At a general level, we want to grow profitably, so we need to invest further in our film business," he says. "We see our business in pouches increasing, for both dry and wet foods. We see a trend for more chilled and retortable foods, with more varieties and more designs in every sector – dairy, confectionery and dried foods. So our business will be more complex, and we have to be more flexible to meet customer demands."

To add more flexibility, the group Constantia Flexibles is planning a major initiative aimed at enhancing its ability to manage the supply chain. "Internally, an important part of that is our 'Logistic 2010' project, which will create a truly integrated logistics service throughout the group," reveals Fritz. "In three years, we want to have the right processes in place to meet customers' needs for short times to market and so on by integrating our supply chain with theirs and taking care of all their material requirements before they arise, with minimum action on their part." □

we'll begin using our new marketing and advertising tagline: 'big enough to dare, small enough to care'. It means as a group we're big enough to deliver to every market in the world and supply major multinationals on the one hand, and as single sites also small enough to care about people in local production sites and ready to meet requirements for very short runs for specific customers."

One-stop shop

Added to the inherent flexibility of the setup is the breadth of the offering and the added-value services provided by Constantia, which also benefit customers. The result is that customer-client relationships are deeper, more complex and longer-lasting. "If we look at multinationals, the Unilevers and Nestlés of this world, they're always in the middle of reorganisation programmes to strengthen their own organisations," notes Fritz Humer. "These efforts often result in slimmed-down structures, and they tend to need fewer suppliers in order to achieve their goals. For example, you can only have integrated logistics systems with one supplier for a particular product, you can't work with two on that basis. So you need what is termed a 'one-stop shop'. The more we are integrated in our processes, the more products you can offer, the better a partner we can be. And that's good for us, because these multinationals and national market leaders obviously have the right volumes for us. If we can offer them the right services, such as integrated logistics or dedicated account management teams organised to suit their way of working, we open the door to significant mutual benefits."

With a broad range and strong links with the customer, is Constantia in a position to hang on to products or brands through conversions from one type of packaging to another? "Not all the time, but to a certain extent, yes we can," replies Fritz. "Of course, our core business is still foil-oriented, but we want to overcome that weakness by heavily strengthening our position in films – through both investment in infrastructure and our integrated innovation processes."

Further acquisitions are more than likely to build up the film side. "We don't have specific firms in mind, but we want to grow, both organically and by acquiring new partners," confirms Fritz. "If you want more market share, it's always best to buy someone who's already there – even in an emerging

Constantia Flexibles

Big enough to dare,
small enough to care.



Closeness to our customers guarantees optimal innovative packaging support.

Constantia Flexibles is part of Constantia Packaging AG and a globally active corporation with a European focus, offering professional solutions to customers around the world in industries such as food production, beverages and pharmaceuticals. Currently approximately 5,000 people are employed in 50 companies of Constantia Flexibles.



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