TAVENS
PACKAGING AND DISPLAY

Tavens News

Sept. 5, 2024

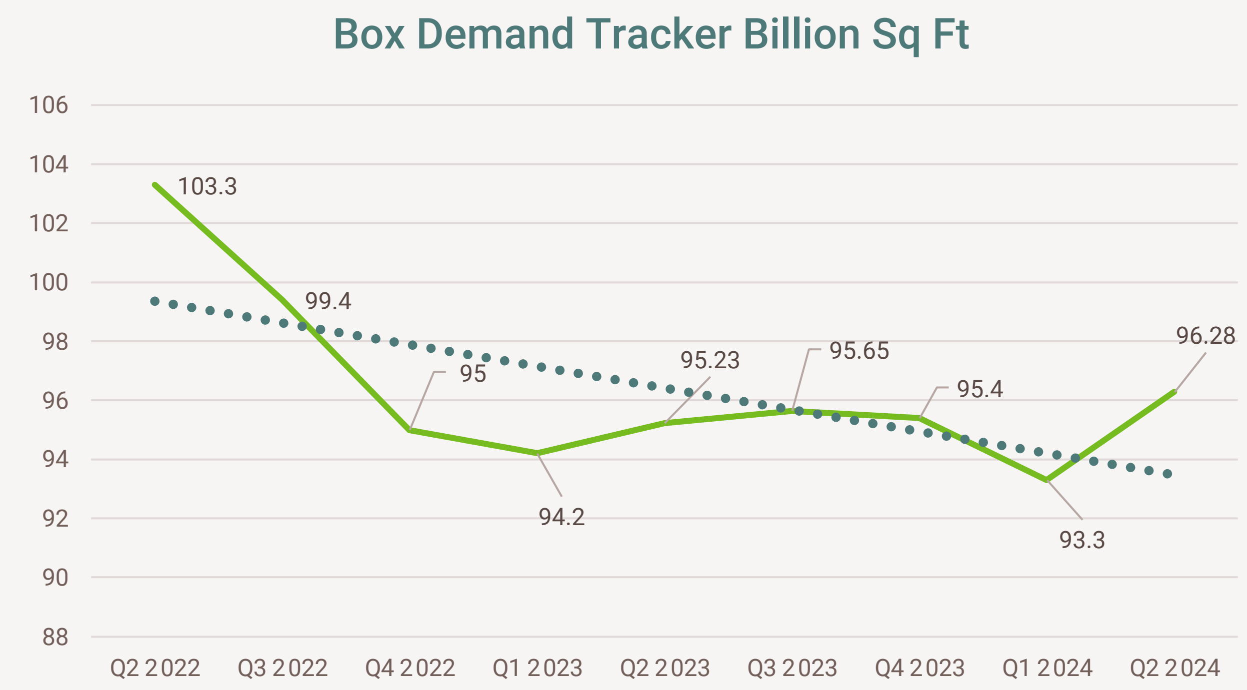
Domestic Linerboard Prices Did Not Change in August

There was no change in linerboard for August, in line with expectations, as the last increase is coming in very soft amid a very slight improvement in overall box demand.

July and August are typically two of the slowest months for corrugated demand. Most customers would have started paying the higher prices reflected in the index around the first of August.

Box demand has improved slightly, with Q2 actual shipments up about 0.1%. This against a backdrop of declining demand since Q2 2022 where the industry saw an overall decline on box shipments of 3.8% in 2022, and 5% in 2024.

Box makers are hoping that the 0.1% increase is a sign that we are starting to see the bottom of the demand erosion.



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Consolidation as Strategy

The corrugated packaging industry, like most mature manufacturing industries, has been consolidating for years. This is the inevitable outcome of increasingly efficient production driving down costs and lowering the sell price. It is also the consequence of a concerted, if not thoroughly thought-out strategy of commoditizing corrugated packaging.

During COVID the corrugated industry put many of its customers in extremely difficult circumstances. Corrugated companies failed to meet customer needs, but also charged record high prices to desperate customers that were struggling to keep their own customers happy.

The inability to respond to rapid increases in demand from e-commerce made it clear to most customers that the industry is not customer focused but is entirely focused on its own production and output metrics. By failing to provide corrugated packaging in a timely manner and charging extremely high prices for the boxes when they finally arrived, corrugated suppliers provided a massive incentive to their customers to find a way to replace them.

As the corrugated industry emerged from the COVID era it found itself in a period of falling demand while at the same time several producers completed new paper mills to meet this new substantially lower box requirement. Box shipments only stopped declining this past quarter.

The overall pie for corrugated packaging has shrunk in the last two years, driving down profitability, pushing down mill operating rates, and exposing poor performers. The major corrugated companies are struggling attract new customers by offering low prices at high volume and little to no service.

The logical next move is to acquire competitors. We see this in the recent merger of Westrock and Smurfit Kappa and the ongoing effort of International Paper to purchase DS Smith. Creating even larger companies that must drive standardization and continue to commoditize the product to maintain mill operating rates while continuing to shutter plants to reduce supply to maintain prices. They have abandoned adding value for their customers and must now consume each other to survive.

Boxes are Cheap to Buy, but Expensive to Own

Our customers often talk about how much they dislike owning boxes. They are surprised when we agree. The corrugated industry has managed an interesting trick. As a rule, our buyers have come to realize that the more you buy the better the price. Combined with a tendency to increase lead times and a habit of missing due dates, our competitors have compelled our customers to buy larger quantities of boxes and store them. That is the only way they feel safe.

But we are starting to see a new generation of box buyers emerging. Buyers who are thinking quantitively and they are looking for real value, not just a lower price.

Recently, a long-standing customer explained why she was starting to move more of her “high movers” to Tavens than she had in the past.

It all came down to order quantity, and our willingness to work with her to lower her overall cost of ownership by reducing the footprint of corrugated in her facility.

In this case, we will focus on just one of her boxes.

She was purchasing 5000 boxes at $.67 from an integrated producer who was sending in 250 boxes per skid, so she was bringing in 20 skids of boxes at a time and she was able to stack them three high in her warehouse.

A typical skid of corrugated packaging requires approximately 13 square feet of warehouse space. Her 20 skids divided by three is 7 skid locations.

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Warehouse costs vary, but for the purposes of this exercise let's assume she has an internal cost of $8.00 per square foot per month to store the boxes.

She uses approximately 1500 boxes per month, so we can assume the cost of storage looks like this:

- 13sqft x 7 skid locations = 91 sqft for this item.
- 5000 order quantity divided by 1500 monthly usage = 3.3 months usage

  (let's assume 2.3 because there is a permanent skid space requirement no matter what the usage is to maintain at least some inventory)

Now we can calculate the cost of owning these box as follows:

- $8 x 91sqft x 2.3 months = $1,674.40 of additional cost to store this box.
- Box cost = $.67 + (Storage cost $1,674.40 / 5000 boxes= $.334)
- Cost of owning the box is $1.04

Tavens delivers 1000 boxes on demand for $.81. Eliminating two skid spaces and saving her the hassle of having to manage and track and count these boxes.

She is paying more per box, but it costs her less.

Now you know the rest of the story...
—Paul Harvey