



WORKING AMID A BEVY OF BLACK SWANS

Following the pandemic, the demand for packaging has been on the rise, with quality, safety and affordable price coming to the fore. Alexander Ladan, Director of Neo-Pack (SIBUR's partner), talks about the current trends in the market.

How did the pandemic-related restrictions affect your company? What challenges did you encounter?

Neo-Pack produces packaging for essential goods and forms part of the commodity production chain, so we kept operating during the lockdown, mainly supplying packages to our partners in the food and chemical industries. Our plant works 24/7 and has all the necessary safety precautions in place. The main hurdles we had to overcome included real-time partial substitution of the imported feedstock and components for Russian ones, plus the growth of prices for raw materials. The inability to interact in person led to changes in communication with suppliers and clients. Finally, border closures disrupted transportation and logistics.



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Was there a redistribution of demand among the clients, and have the orders gone down?

Yes, there was, and a big one at that. Due to store closures, demand for shopping bags in footwear, apparel, and pretty much all other non-food retail assortment plummeted to zero. At the same time, demand for cargo bags went up, mainly on the back of e-commerce and delivery services. There was a drop in the number of orders for flexible packaging (used for pasteurised milk and confectioneries), while demand for packages for snacks, groceries and household chemicals was up. Manufacturers that cater to schools started ordering less. Orders for ice cream packs came in a month earlier than usual due to an early onset of spring and high temperatures. Demand for pet food and mortar mix containers remained flat.

CUSTOMERS LOOK FOR THE HEALTHIEST OPTIONS, PRODUCED IN COMPLIANCE WITH ALL STANDARDS AND

The market has obviously been thrown out of balance. How did you tackle the supply and demand problem?

This is not Russian industrialists' first rodeo when it comes to working amid a bevy of "black swans". However, there is no denying that a confluence of so many negative factors is quite unique.

It does require us to optimise costs, unfortunately. For example, we have been buying a great deal of PPE, which is an unforeseen expenditure. But what really made our costs go up was higher feedstock prices. FX rates affect us all in one way or another, and there was a repricing from many suppliers (even Russian ones). However, our clients – the food industry and retail chains – could not do the same, so we had to keep the selling prices at the February level for almost the entirety of April. Needless to say, this has put a temporary damper on our margin growth.

What about remote work arrangements, did your production facilities and the company on the whole adopt them? Is working from home beneficial for business?

Since manufacturing cannot be done remotely, it is our office that has mostly switched to working from home. There were of course certain bumps in the road, like laptop shortages or matters of ensuring information security.

We also had to learn how to hold online meetings and negotiations, and even how to sign off on printing remotely.



Manufacturing cannot be done remotely.

On the bright side, there was a noticeable drop-off in tensions around the company (the classic production vs sales rivalry). These times of real adversity have really brought the team together; everyone is being very supportive and caring. Despite our worries, our designers have been even more productive working from home.

We were able to preserve the staff and are actually in search of new employees with specific technical skills for our production operations. We are actively implementing online education solutions, organising webinars with our partners and market experts.

However, we will go back to the office, and let me explain why. It is a well-known fact that words carry just 10% or so of the information in human communication, with the way they are said accounting for around 30%, while 60% is communicated with gestures, facial expressions, motions, smells, and touch. Our brain perceives the world via all five senses, which allow it to create the most complete

picture of reality. By communicating digitally, we lose the ability to fully share our mood, give a supportive smile, or pat somebody on the shoulder. How can we give feedback without getting back the full extent of reaction? How can we drive efficiency by increasing the index of emotional intelligence while sitting miles apart at our home desks?

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When it comes to team work, such integral elements as the acceptance of and commitment to the company's mission and goals, development of the corporate culture, and effective leadership do not really work if they are not fully internalised by the team members. Plus, at the end of April, part of the staff were asking to go back to the office after just a month of remote work. We should not underestimate the importance and benefits of personal communication and social bonds.

In this force majeure situation, is the government helping your business? What support measures would you appreciate?

Since we are operating during the lockdown, our company is not eligible for support programmes. What's important for us is access to affordable credit financing. Unfortunately, the respective financial instruments actually became more expensive in April.

In your view, what has been the impact of the pandemic on the packaging market?

Under the "new normality", demand for packaging will be higher: it is already growing courtesy of the food and pharmaceutical sectors. The main focus should be on how well packs preserve the product inside (which is their primary job), not on their secondary (albeit more conspicuous) function of promoting the product, having nice logo designs, etc. Polymer containers (including combined and multilayer materials that make them up) constitute the most reliable and inexpensive way of ensuring that mass-consumption goods are well-sealed. The price point is definitely going to play a part following the pandemic.



Alexander Ladan is convinced that telecommuting is a poor replacement to offline.

Our partners in food and retail confirm the current crucially important trend towards safe consumption. Customers look for the healthiest options, produced in compliance with all standards and properly sealed. Companies with the most transparent production processes will get ahead on customer-centricity.

CUSTOMERS LOOK FOR THE HEALTHIEST OPTIONS, PRODUCED IN COMPLIANCE WITH ALL STANDARDS AND PROPERLY SEALED

Hypermarkets were left behind by the post-coronavirus economy, with convenience stores and online platforms collecting all the profits. Packaging remains in demand, but with vectors slightly shifted. Convenience stores are an economy format, with high entry competition, so their main requirements to packaging are low price and high storage capacity.

The growth of the e-commerce market may bring about a change in design solutions for packaging, primarily to fit online storefronts. It is important to ensure that a product makes a good impression not on a store shelf, but in a website's catalogue. Some major players are already ordering double designs for the same products to accommodate both offline and online channels. Another consequence of coronavirus in Russia is going to be the blurring of the line between retail and restaurants, which is already a clearly defined trend.

What are Neo-Pack's short- and long-term plans? What is your outlook for the domestic and global packaging markets?

Plans are many. We want to ride the wave, as surfers say. There are some M&A options on the table for growing the business, but we will talk about that if and when we actually ink some deals.

Forecasts are always an iffy proposition, doubly so in a time of force majeure, but my prediction is that in the following years the packaging industry will be growing by 2–5%.