
Strategic Analysis of Cherat Packaging Limited

A Case Study of one of the Key Players in Pakistan's Packaging Industry

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Abstract

Cherat Packaging Limited, a well-known name and one of the key players of cement packaging in Pakistan with an established market share, has recorded extensive expansion and diversification over the years. This case study is about Cherat Packaging Limited aims to examine this prominent company strategically, while paving way for future strategic developments, by giving the readers a comprehensive view of the company's vision, mission, key policies and principles, culture, financial performance, internal and external environments, challenges and growth opportunities. Even Cherat Packaging Limited, apparently one of the market leaders in the packaging industry, senses a need for continuous improvement to remain sustainable in the longer run, given the competitive, fast-paced, technology-driven and ever-changing business environment.

Keywords: Strategic Management, Strategic Analysis; Cherat Packaging Limited; Packaging

Introduction

Cherat Packaging Limited (CPL) is a diversified packaging company in Pakistan. There are two businesses of Cherat Packaging Limited. One is Bags Manufacturing Division where Paper or Polypropylene bags are manufactured for the cement industry primarily. However, CPL also produces bags for sugar, chemicals, fertilizer, rice, etc. These industries require the Paper or Polypropylene bags based on the type of the material that is to be packed or sold along with the market acceptability of the type of bags. CPL has the biggest capacity not only in Pakistan, but in South East Asia for bags manufacturing.

The second division is Flexible Packaging Division. Under this division, the main business as of now is of printing and lamination. An example of printing is that of printing on the packets of tea, oil pouches, ketchup pouches, biscuits, candies, etc., the products we usually see in the supermarkets. With one film the printing is done and with the other film the same is laminated. These services are required by the Fast Moving Consumer Goods (FMCG) companies. CPL has recently set foot in this business as a move towards diversification.

The major revenue of the company comes from the Bags Manufacturing Division, as the company has recently set its foot in the Flexible Packaging Industry. CPL is the leader in cement packaging. For the Bags Manufacturing, especially for Cement packaging, CPL seeks to expand its market share. Whereas for the Flexible Packaging, it wants to dig deeper in to the FMCG packaging industry to become a recognized name while seeking growth opportunities.

CPL has been expanding remarkably over the past few years. By entering the Flexible Packaging Industry, it is the only company in the region that offers diversified types of packaging solutions. However, the General Manager Accounts and Head of the Department (A), Mr. WaqarHaiderKazmi who has been associated with CPL since 2007 and is one of the key decision makers of the organization is concerned about the future outlook of the company given the rapid changes in the environment. He seems apprehensive about securing business for the relatively new Flexible Packaging business among competitors, to remain profitable given the rising costs of doing business, recent performance during COVID-19, and increasing the market share while ensuring the long term sustainability.

History of CPL

CPL started its production in the year 1992 with one Bottomer and a Tuber that had an annual capacity of 50 million paper sacks. CPL acquired the ISO 9001 CMS Certificate in 1998. By 2009, CPL had added more Tubers and Bottomers to the production line which increased the annual production capacity to 265 million paper sacks. In 2012, the first Polypropylene (PP) Line was installed. By 2016, CPL had 3 PP Lines which increased annual capacity to 200 million PP bags. The year 2017 was a game changer for CPL as in this year the Universal Papersack line had arrived with an annual capacity of 135 million bags, and CPL decided to enter into the Flexible Packaging line with the acquisition of the main Flexible Packaging plant under the project with Windmoller&Holscher and more suppliers. In 2018, Roto and Flexo Printers and

laminators were installed for the Flexible Packaging division. The Flexible Packaging project was completed in 2019 with a capacity of 12.6 million Kilograms.

CPL's Vision and Mission

Vision:

“To be a preferred supplier of packaging solutions combined with efficient manufacturing facility and satisfied customers.”

Mission:

“To seek increased market share by anticipating emerging trends and introducing new products for meeting the demands of our valued customers and ensuring adequate return to our shareholders.”

Organizational Culture, Principles and Policies

CPL has an organizational culture that is based on a set of shared values and beliefs that are practiced by its employees every single day to move towards becoming a better and more successful company. The shared values and beliefs of CPL hold a strong influence on its employees that helps both the employees as well as the company achieve a win-win outcome.

CPL believes in being socially and environmentally responsible for which it also has a Social and Environmental Responsibility Policy. It also values ethical practices of doing business. The company is committed to conduct its business with integrity and honesty. CPL also has a Code of Conduct that the employees follow dutifully. This Code acts as an integral part of the employment terms of all of its employees. CPL has a zero tolerance policy for any unlawful behavior or misconduct. Any breach of the Code of Conduct results in a disciplinary action against the employee up to termination of employment.

The company has four values that as mentioned by Mr. Kazmi act as a foundation of its culture which binds the employees of CPL into a topnotch team that yearns to outperform its competitors and bring the company towards higher echelons of success. These values are:

- Respect
- Quality
- Fairness
- Ownership

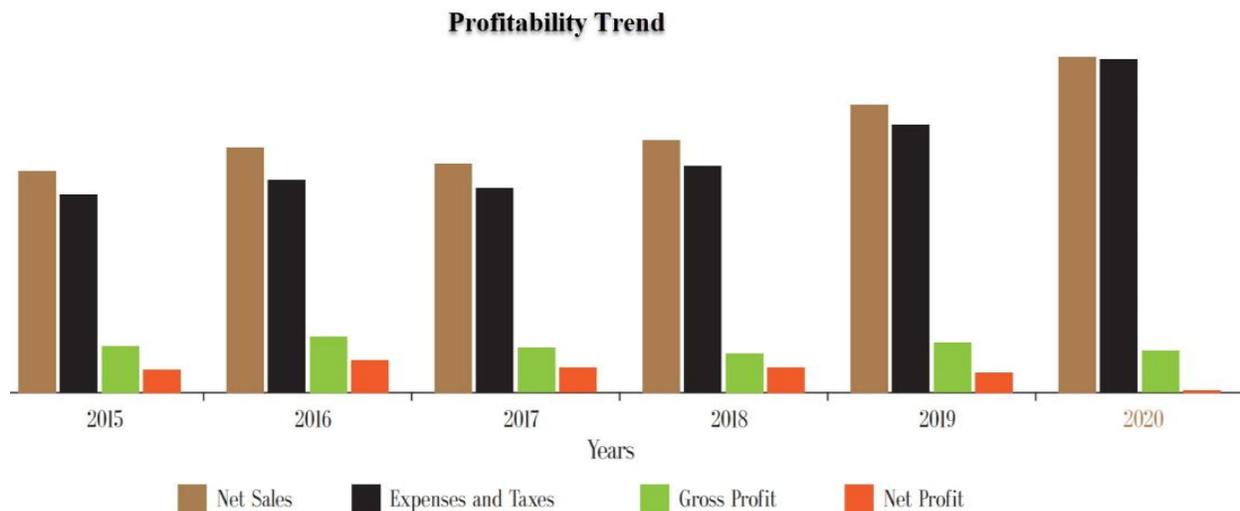
Summary of Recent Financial Performance

Mr. Kazmi regarded 2020 as a turbulent and challenging year given the outbreak of COVID-19 which disturbed the exchange rate parity of Pakistani Rupee, brought the economy to a slump along with political turmoil, increased discount rates, brought new entrants in the market, yet CPL managed to remain the market leader in the supply of cement bags. The production and sale of CPL increased as compared to the previous year. However, this increase in sale did not convert to increase in profits. The profit reduced from approximately PKR 562 million in 2019 to 70 million in 2020 due to reasons such as the devaluation of PKR causing production costs to rise

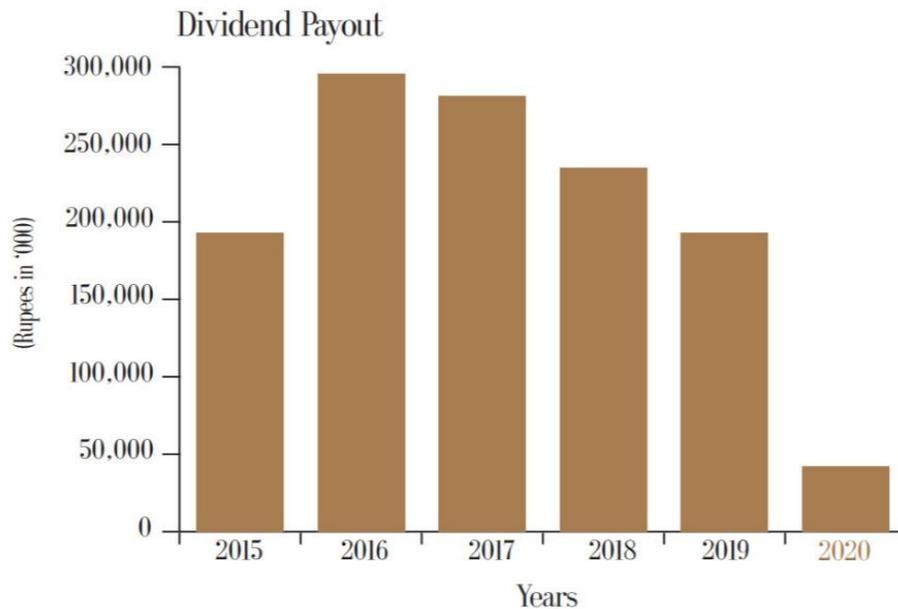
and constant increase in the discount rates till the third quarter of FY20, altering the finance costs of CPL. Company's exports increased regardless of the rise in production costs. The depreciation of PKR as against USD made the exports more feasible.

	2020	2019
	(Rupees in Million)	
Net sales	9,436.19	8,093.41
Cost of sales	8,262.47	6,692.76
Gross Profit	1,173.72	1,400.65
Expenses & taxes	1,103.48	837.78
Net Profit	70.24	562.87

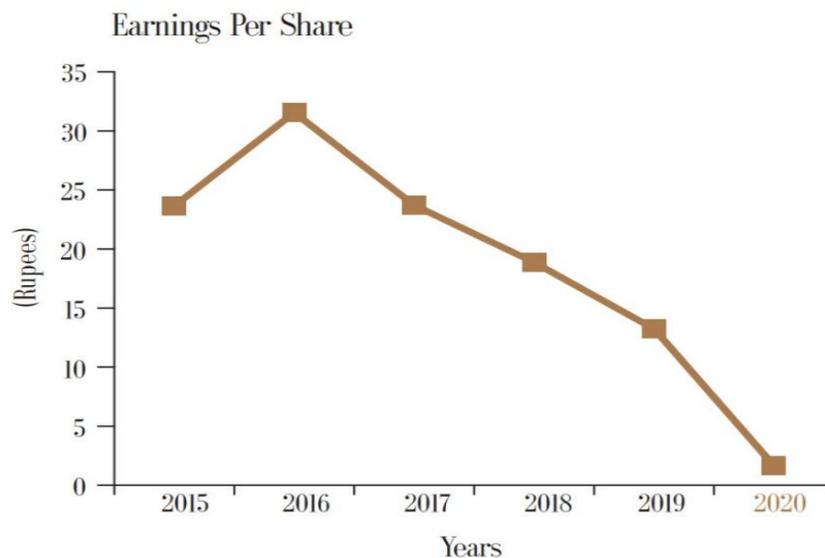
The company has gradually increased its Sales. In 2016, the company sold highest number of quantity and generated the highest profit of Rs. 918 million.



The Cherat Packaging Limited's dividend payout is highest in 2016 but gradually declined from 2017-20.



The earnings per share illustrates how much cash is generated by the company for each share of its stock. External factors including competition, energy, increased taxes, increase in discount rates, foreign currency exchange rates and highly increased raw material prices directly impact on the company's returns and EPS, which has shown a downward trend.



Company's Environment

One of the biggest strength of the company is that CPL has the biggest capacity not only in Pakistan, but in South East Asia for bags manufacturing. This gives the company Economies of Scale, and low cost advantage against competitors. The company has efficient machinery that saves power. CPL also has an edge over competitors in making paper bags as it makes quality bags (2 ply) with lowestgrammage that have high strength and with use of high quality paper

imported from outside Pakistan. The market share of CPL in bags manufacturing is around 35-40%. Other than having the biggest production capacity in South East Asia, there is no other player in the Pakistani market that has both lines of Paper and PP bags except for one that is a very small player. CPL is a one window operation for its customers. The company has a highly skilled workforce. The company has a set of policies that its employees follow.

The company imports around 80-85% percent of its raw materials and hence has almost all its eggs in one basket. It needs to have some strategy to cater to any change in circumstances whereby if it fails to get its raw materials from imports then its production should not get affected. It needs to have in place Business Continuity plans for unforeseen circumstances. It needs to work on cost control measures as well. It needs to utilize its unutilized production capacity of the Flexible Packaging Division.

Since the company has already been working on diversification, it can explore further opportunities in the Flexible Packaging business by acquiring various machines to increase the types of products for which it offers packaging solutions. It can further increase its exports. New capacities can be added in the business. Growing FMCG market is also an opportunity for CPL to expand its Flexible Packaging Business. However, new entrants and competitors are major threats to CPL. Other than that, the changing external environmental conditions, including political, economic, legal, technological and environmental factors detailed further in the case also pose a threat to CPL.

External Environment and Industry

Political Environment:

The business of CPL has been affected due to political rifts between parties that cause blockade of roads causing business lockdowns. One such issue was faced recently due to a long march from Peshawar to Islamabad. CPL is located near Swabi. Hence the in-land transportation from and to that facility faced a block. Hence deliveries were stopped and delayed for more than one and a half week. Similarly, these days a lot of political gatherings and long marches are happening. All such issues make the businesses suffer delays and losses.

Economic Environment:

Economic factors affect CPL's business directly in form of exchange rates, unstable discount rate, high inflation, business lockdowns, loss of business due to COVID-19 and decelerated economy.

One of the major ways economic factors affect CPL is through the exchange rate, as around 80-85% cost of the raw materials of CPL's Paper and PP bags is imported raw material cost. Hence the currency devaluation is a risk. Another risk is the discount rates becoming too high and due to which it becomes difficult to manage the business. Moreover, import duties are high in Pakistan. Unfortunately, the quality of the paper available in Pakistan is of substandard quality, and CPL has to import it. Lastly, the purchasing power of the customer was impacted during COVID-19 which posed a challenge.

To mitigate the impact of these factors on the business, the company keeps an optimal Debt to Equity ratio, strengthened its IT infrastructure enabling work-from-home, took advantage of

SBP's loan repayment facility for payment of salary and wages to employees, etc. However, uncertain and unstable economic factors always remain a big challenge for the businesses.

Construction activities are linked to economic activities. Hence cement production is directly linked to the economic activities. If cement production reduces, then the packaging is definitely affected.

Legal Environment:

Businesses need to abide by the laws of the land. Being in the packaging industry, CPL also has to abide by a number of laws and regulations set out by the Government of Pakistan. Some of these include, Companies Act 2017, Sales Tax Act, Act, Rules and Regulations of SECP, Income Tax Ordinance, IFRS Amendments and Code of Corporate Governance.

There are laws for the environment that CPL has to follow. CPL also follows Pakistan Standards & Quality Control Authority (PSQCA) guidelines.

Other than the above, there are certain laws that CPL has to follow while doing business with MNCs that require CPL to abide by various labor, food security and packaging quality laws and rules and obtain certifications too.

Technological Environment:

Technology plays a key role in the success of businesses. This is also a method to gain an edge over the competitors. CPL, being innovative, fine-tuned its machinery for Flexible Packaging. It keeps on innovating its machinery and products by doing minor and gradual fine tuning in its machinery and equipment or acquires new machinery from time to time.

Natural Environment:

All companies involved in manufacturing impact the environment. CPL abides by the international rules of environmental protection. It complies with the NEQS Standards and is also EMS ISO 14001:2015 certified.

Impact of COVID-19 Pandemic on the Business of CPL:

COVID-19 has been one of the most challenging situations medically and economically as well. It has caused a global economic crisis, and Pakistan has been no exception to the effects of it. Therefore, the industries and businesses were also affected by the slowdown of the economic activity, construction industry and FMCG sector, due to various lock downs imposed by the governments. Businesses are still uncertain about the future scenario of the local and global markets.

The impact of COVID-19 was to a greater extent curbed, as the Government of Pakistan provided leverage to the construction and food industry. A number of packages and relief measures were introduced by the Government and State Bank of Pakistan, including reduction in discount rates, low rate wage financing scheme, announcement of Construction Package, and deferment of long-term loan facility, etc. These measures have started to result in a positive impact on the businesses. CPL also benefitted from these measures. The recent rationalization of the import duty on imported 'Kraftpaper' is expected to boost the revenues of the company as well.

For Flexible Packaging Division, some of the important general routine use and food items continued to be produced so that was also not impacted as much for such products. However, as schools were closed so the consumption of snacks by children at school was impacted. For other items, production was impacted. So the Flexible Packaging business was overall moderately impacted by COVID-19 pandemic.

Market Share:

For the Paper and PP bags, the market share of CPL ranges between 35-40%.

In Flexible Packaging, to find out the proper capacity or demand of the market is next to impossible, as the industry has both organized and unorganized sectors. For the organized sector, there may be listed, or unlisted public companies which may be known. For the unorganized sector, there are a number of players in a number of places which can never be quantified. The demand of Pakistan is not just these branded products produced by MNCs. There are a number of unbranded unknown products that are being sold in Pakistan. Their packaging needs are met by these small roadside or small unorganized packagers. An example can be taken from the Pan cabin found at various roadside corners on the streets of Pakistan. He may have a number of various products that we may never have heard of. Those products are also produced, packaged and consumed by people. Hence, to gauge the size of the market and the share is almost impossible.

Suppliers:

For both its businesses, CPL imports its raw material from renowned suppliers of the world. The raw material is then converted into bags as per unique customer specifications and demand. 80-85% of the raw material of CPL is imported. Remaining materials are ink, chemicals, etc. which are easily available with a number of suppliers. Hence bargaining power of local suppliers is low. For its international suppliers, CPL has maintained a strategic partnership with them, which is why the company received timely supply of raw materials even during the global pandemic.

For Flexible Packaging Division, films and inks are used, for which a number of suppliers are available. However, competition is relatively high. Films producers are always in high demand. One example of a supplier is Tri Pack Films, who are always fully booked. If CPL gets its material from them, it needs to pre book them to get the material at good rates and on time.

Competitors:

CPL has the biggest capacity not only in Pakistan, but in South East Asia for bags manufacturing. This gives the company Economies of Scale, and low cost advantage against competitors. CPL also has an edge over competitors in making paper bags as it makes quality bags (2 ply) with lowest grammage that have high strength and with use of high quality paper imported from outside Pakistan, as the local paper is not of good quality.

The market share of CPL in bags manufacturing is around 35-40%. Other than having the biggest production capacity in South East Asia, there is no other player in the Pakistani market that has both lines of Paper and PP bags except for one that is a very small player. CPL is a one window operation for its customers. However, there are big competitors like Packages Limited, Universal

Packaging Company Limited, Saima Packaging (Pvt.) Limited, Merit Packaging Limited, etc. Hence there is a competition for the market share.

While CPL has a strategic edge in terms of production capacity, state-of-the-art facility, superior quality materials and products; competition has been rising in the industry not only in the Polypropylene and Kraftpaper bags, but also in the Flexible Packaging business. CPL holds a market share of about 35-40% in paper bags, however with new entrants the share had reduced.

New Entrants:

CPL has the biggest capacity not only in Pakistan, but in South East Asia for bags manufacturing, giving the company Economies of Scale, and low cost advantage. From 2008-18 CPL did production expansions for five times. Hence constant growth and expansion efforts by CPL also allow it to keep the competitors or new entrants away. Any small to medium sized competitor that plans to enter or has recently entered is challenged by the continuous expansions of CPL. For the bigger companies, to bring the level of capital, machinery and equipment is not a big deal, but they do not prefer entering in this business considering it demanding. However, entrants do keep trying to enter the industry.

Entering the Flexible Packaging industry is not a big issue. Small machineries are required to set up a business and you can keep on adding new machines over time and expand your business lines. New entrants have been entering the industry especially in the Flexible Packaging business and large number of producers have made the industry competitive. However, in Flexible Packaging, most suppliers are unorganized or very small, leaving the major market and big companies for the organized sector. To combat this threat, the company has been bringing large scale machinery which may act as a barrier to smaller and medium sized new entrants as they may not be able to match the production ability of CPL.

Substitutes:

In the Flexible Packaging, a number of substitutes may be available as the industry is mostly scattered and unorganized. However, when it comes to quality, the substitute products lose the battle to the organized sector that cannot be matched in quality for renowned brands.

Challenges

Mr. Kazmi was most concerned about its Flexible Packaging Division, which has been a new business for CPL. The biggest challenge facing CPL right now is that for its relatively new Flexible Packaging Division, getting the manufacturers (customers) to give them business, as against their old packaging suppliers. Moreover, in this market the maturity of the customer takes a lot of time. For example, the customer sends CPL a shade card for printing labels of Lipton Yellow Label Tea. CPL prints the same and sends back to the customer. Then the customer may not be satisfied or want to make more changes. So there is a lot of to and fro in the process. It takes 3-4 months in finalization or completion of a job deal. Thirdly, for the bigger customers i.e. Multinational Corporations (MNCs) for example P&G or PepsiCo, CPL is trying to get business from them. However, in order to do so, one needs to follow all international certifications and laws for labor, food security, quality packaging, etc. Getting all these certifications takes a lot of

time. Hence the biggest challenge facing CPL right now is to bring its Flexible Packaging capacity to proper utilization by securing business with companies, especially MNCs.

While CPL is doing well in terms of sales on the Paper and PP bags business and does expansions from time to time, still its market share ranges around 35-40%. A number of big and established competitors are present in the market. CPL will have to make efforts to increase this market share as well and also sustain it in the long run given the environmental factors.

From the financial perspective, we have seen that the recent figures are not very encouraging given the impact of external environmental changes on the business of CPL. Hence CPL faces increased cost of doing business which has eaten up the benefit of increase sales, as even after increase in number of products sold, the profit has still reduced. Hence CPL needs to combat the impact of these environmental changes on its business by devising appropriate strategies.

Way Forward:

The business environment today is most uncertain than ever, and Mr. Kazmi and the management of CPL is aware of it and wants to be prepared with alternative strategies beforehand to make the company future ready. CPL needs to keep pace with the market demands. At all points in time it is imperative to deliver the best quality product to the customer and in time, to remain successful in the market, as competition is high for both industries. Hence, from time to time, new technological developments will have to take place and new offerings are required to be made to the customers, while ensuring that the same are cost effective. Consistent expansions are also required to remain market leaders, stay competitive in the market and keep new competition away.

For the Paper and PP bags division, how will CPL gain more market share and sustain it in the long run? The environmental risks will have to be mitigated by devising strategies beforehand. The opportunities will have to be tapped. The threats will have to be minimized. Rising costs of raw materials is the most imminent risk facing the Company. Devaluation of Pakistani rupee has made the risk more pronounced. For the Flexible Packaging Division, what strategies can CPL devise in order to secure business with more FMCG companies, especially MNCs? What innovations CPL must bring to remain competitive? How will CPL reverse the impact of COVID-19 on its business and devise strategies to reduce its cost of doing business for future? Given the recent experience, how can it increase its profitability for the coming years? How will CPL monitoring the ever demanding business needs take appropriate measures to safeguard the interests of stakeholders? Mr. Kazmi and his team should consider resolving and answering all the above questions and concerns.

Teaching Notes

Strategic Analysis of Cherat Packaging Limited – A Case Study of one of the Key Players in Pakistan’s Packaging Industry

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1. **Synopsis of the case**

The case study about Cherat Packaging Limited aims to examine this prominent company strategically, while paving way for future strategic developments, by giving the readers a comprehensive view of the company's vision, mission, key policies and principles, culture, recent financial performance, internal and external environments, challenges and growth opportunities. Even Cherat Packaging Limited, apparently one of the market leaders in the packaging industry, obligates a need for continuous improvement to remain sustainable in the longer run, given the competitive, fast-paced, technology-driven and ever-changing business environment.

2. **Target group**

Undergraduates, graduates and postgraduates

3. **Learning Objectives and Key Issues**

Learning Objectives:

- Analyze the company's business, vision, mission and organizational culture.
- Analyze the company's internal and external environments.
- Understand the market and industry forces and their impact on the company.
- Identify and understand the key challenges faced by the company.
- Understand the company's ability to implement strategies and identify the areas demanding change or improvement.
- Analyze and evaluate company's issues and develop inventive and practical strategic alternatives using a strategic management perspective.
- Formulate a strategy that exploits the business opportunities and minimizes the threats.
- Prepare an Implementation and Evaluation and Control Plan for the chosen strategy.

Key Issues:

- Getting the Flexible Packaging capacity to proper utilization.
 - Getting the manufacturers (customers) to give business to CPL, as against their old packaging suppliers, for its relatively new Flexible Packaging Division.
 - Securing business with Multinational Corporations (MNCs) that require the company to follow all international certifications and laws for labor, food security, quality packaging, etc.
- Increasing and sustaining the market share for Paper and PP bags business, given an industry full of established competitors.
- Increasing its profits by reducing the cost of doing business.

4. Teaching strategy

Option 1:

- The instructor will ask one of the students to briefly summarize the case. Afterwards, the discussion questions may be answered by the students to frame the important issues.
- The instructor will connect the facts and issues discussed by students and link them together to have an overall picture, by integrating theory with practice.
- Then the discussion items and questions, including the ones in the teaching notes, will be answered by the class. The instructor will facilitate the process of pulling together the students contributions while sharing his/her own at the end.

Option 2:

- The instructor will divide the students into groups and each group will attempt the case study by performing a strategic audit of the company, devising alternate strategies, selecting one strategy and preparing an implementation plan for the same.
- For the strategic audit, the instructor will provide the students with the necessary reading material and templates for performing the audit.
- The instructor will keep facilitating the students in case of any guidance.
- In the end, each group may be asked to present their audit and chosen strategy along with implementation plan. All groups may evaluate each other, along with the instructor.

5. Questions for discussion

- What are the strategic most important Strengths, Weaknesses, Opportunities and Threats of the Organization?
- How are the external environment and market and industry forces affecting the company's business?
- For the Paper and PP bags division, how will CPL gain more market share and sustain it in the long run?
- For the Flexible Packaging Division, what strategies can CPL devise in order to secure business with more FMCG companies, especially MNCs?
- What innovations CPL must bring to remain competitive?
- How will CPL reverse the impact of COVID-19 on its business and devise strategies to reduce its cost of doing business for future?
- Given the recent experience, how can it increase its profitability for the coming years?
- How will CPL monitoring the ever demanding business needs and take appropriate measures to safeguard the interests of stakeholders?

- Which Corporate Strategy must the company adopt from stability, growth, and retrenchment?
- Which Business Strategy must the company adopt from cost leadership and differentiation?

6. Background and Supplementary Reading

Readers may go through the website of Cherat Packaging Limited and its Annual Report for the year 2020. The annual report of CPL is rather a very comprehensive document where all supplementary information can be found. For help regarding application of various strategic management case analysis methods and tools, or on how to perform a Strategic Audit of a Corporation, students may read the Book ‘Strategic Management and Business Policy toward Global Sustainability – 13th Edition’ by Thomas L. Wheelen and J. David Hunger.

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