



## Miraclon CEO on **why passing along cost is necessary to secure a healthy supply chain**

For any company engaged in the supply of goods, regardless of industry sector or where you are in the world, the number one topic on every boardroom agenda today deals with the ongoing ability and cost to supply product to customers. The challenge is extraordinary and universal. From the start of the COVID-19 pandemic Miraclon's priority has been to secure the supply chain. We have worked hard to continue sourcing the raw materials that we need to make our products and ship them from our manufacturing plants to our customers around the world, so that they in turn can maintain supply of printed product packaging to the brands and retailers.

Throughout this period, despite our costs rising continuously, we have taken all measures within our control to absorb price rises without passing them on to our customers. Unfortunately, this is no longer possible, and so from 7th February 2022 we will be implementing the first price increase in the ten-years-plus since the launch of the KODAK FLEXCEL NX System.

We have taken this decision with great reluctance and careful thought about how best to implement the increase in a balanced and proportionate manner that takes account of a variety of inflationary costs and their impact on our customers.

After weighing a combination of factors, we are taking two separate actions, because there are two different market forces at work. First, we're raising the price of all our products, in most cases by 6%, to address the higher costs for raw materials, labor, utilities and business services that we've had to pay since the start of the pandemic.

Second, we're implementing temporary surcharges in response to the current higher costs as a result of the significantly extended supply chain and raised prices for distribution and freight services. We believe that increased costs are a temporary situation that will moderate, and as soon as we are able to, we will reduce, or remove, the surcharges.

We are confident this strategy is in the best interests of our customers, the supply chain and Miraclon.

Because transparency is important to us, and we want our customers to understand the economic and commercial background to the increase, and the factors that we considered, we've asked Chris Payne, Miraclon CEO, to explain the decision-making process. We hope that the content also provides useful reference and context for our customers as they engage in the subsequent discussions they will need to have with their clients to pass their increased costs along the value chain.

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### **Can you explain in detail the factors that make the price increase necessary, and why it is being implemented now?**

We reached the decision after weighing the impact — globally and specific to Miraclon — of **three key factors**:

- The absolute priority to ensure continuity of supply
- Inflation — now and projected — in the cost of manufacturing inputs (raw materials, energy, labor, and so on)
- The disruptive impact of the COVID-19 pandemic on global transportation, logistics, and the associated costs of securing the supply chain

Securing supply is the overriding priority throughout the package printing value chain, and so tradeshops, converters, brands, retailers, and even consumers are prioritizing security of supply over price. This means paying the prices for goods and services that the market demands.

It is no different for Miraclon. To fulfil our role in the supply chain, we must have the raw materials to manufacture our products, sufficient stock holding throughout the supply chain, and the distribution infrastructure to get goods to our customers. Because demand is outstripping supply across the board — for raw materials, labor, utilities, freight, and distribution — it has cost us more to secure our supply chain.

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## Securing supply is the overriding priority throughout the package printing value chain, and so tradeshops, converters, brands, retailers, and even consumers are prioritizing security of supply over price.

Packaging converters and brands face the same challenges and have been passing costs to their customers for some time. Converters are experiencing shortages of inks and substrates, and are regularly having to pay higher prices, often at short notice — and even when committed contracts are in place. More on this below....

Estimates of inflation in 2021 range from 3.6% (the International Monetary Fund) to 6.6% (Kiplinger). Retailers and consumers in the advanced economies are paying more for finished products. The US Consumer Price Index reached a 30-year high in October 2021 and year-on-year inflation increased by 6.8% over the 12 months to November 2021. It is a similar story in Europe: the EU Consumer Price Index averaged 92.39 points from 1999 until this year but reached an all-time high of 110.54 points in October 2021.

Looking ahead, economists say US inflation will remain above the Federal Reserve's target until at least 2024, and the European Central Bank likewise predicts above-target inflation for 2022. While the rate is expected to trend downwards in 2022, to below 3%, the IMF does not rule out the risk of future inflation as high as 7-13%.

In addition, we've experienced price increases in specific areas of the economy that are relevant to Miraclon. During 2021, energy prices surged by more than 80%, and are expected to continue to rise in 2022, albeit at a much-reduced rate. However, uncertainty remains high and small demand shocks could trigger fresh upwards spikes.

The situation has been exacerbated by double-digit cost increases in critical ingredients and packaging components. Paper suppliers, in particular, have experienced significantly higher input costs, including pulp, energy, transport and chemicals.

The ongoing COVID-19 pandemic has impacted all businesses in respect of **freight and distribution costs**. Pandemic-related issues have caused disruptions across

the globe resulting in lockdowns, ad hoc port closures, crew shortage issues, shipyard delays. All these decrease the overall supply chain efficiency and fuel a rise in costs. The situation is very dynamic everywhere: cost fluctuations vary from region to region and are not predictable.

Demand exceeds supply throughout the end-to-end process. Getting product from the manufacturing plant to the distribution center is more expensive because shipping lines, ports, warehouses, and customs agencies everywhere are applying significant cost increases to counter logistics, shipping and transportation issues. On some shipping routes costs are between three and six times higher than a year ago. This is significant for Miraclon because of our global footprint and sourcing strategy for raw materials.

The situation is the same on the last mile, from the distribution center to the customer: transportation networks have been severely impacted by limited trucks, a lack of truck drivers and numerous other logistical challenges. Trucking rates in the US were up between 15% and 40% in November 2021 compared to November 2020 and Fedex have just announced that their highest general price increase since 2013 will take effect in January 2022.

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### KEY STATISTICS

- Estimates of inflation in 2021 range from **3.6%** (the International Monetary Fund) to **6.6%** (Kiplinger)
- The US Consumer Price Index reached a **30-year high** in October 2021
- The EU Consumer Price Index averaged 92.39 points from 1999 until this year but reached an **all-time high of 110.54 points** in October 2021
- On some shipping routes costs are between **three and six times higher** than a year ago
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At the start of the pandemic, we decided that, whatever the cost, we had to continue supplying our products to our customers. Our first action was to increase production at all our plants to build inventory as a buffer against supply chain issues.

### **What measures have you taken up until now to delay the increase?**

At the start of the pandemic, we decided that, whatever the cost, we had to continue supplying our products to our customers. Our first action was to increase production at all our plants to build inventory as a buffer against supply chain issues.

As a result, our inventory — of both raw materials and finished goods — is now approximately twice its pre-pandemic size, which requires the funding of significant increases in working capital. In addition to the committed contracts for materials that we had in place, we purchased materials on the 'spot' market at whatever price the market set and absorbed the extra costs. The absolute focus has been on maintaining an uninterrupted supply of FLEXCEL NX Plate kits to our customers.

As described earlier, the pandemic has disrupted freight and transportation markets. To give an idea of what this means in practice, instead of being able to ship products around the world in 30-45 days we are now faced with shipping times of 80-100 days. To get around this, we are constantly exploring different options and modes of transport to get our products to our customers, which almost always cost more.



*Inventory of FLEXCEL NX Plates at Miraclon's Weatherford, Oklahoma US plant*

### **Why implement the increase into two parts? And is there scope to amend prices if the situation changes?**

We wanted our actions to be balanced and proportional, and not simply a blanket across-the-board price hike. As we've explained above, different forces are at work, one related to general inflation — in materials, labor, services and utilities — and the other to supply chain disruptions. While the former is irreversible, we do believe the supply chain situation, which is currently very volatile, will stabilize over time and costs will moderate. So, a temporary surcharge is the best and fairest way to respond now.

### **It seems that signing committed contracts to hedge against increased materials costs hasn't worked for Miraclon. Is this the case?**

The last two years have been exceptional, and it's inevitable some of the things we've grown to depend on have come under intense pressure. Most annual supply chain contracts have stood up, although as they unwind, we have seen significant year-over-year increases. However, there have been cases where suppliers tell us their costs have risen so much that they cannot adhere to the contract and might choose not to supply us at all. In this situation, and with our commitment to prioritize supply over cost, we have paid higher prices rather than not obtain materials. And we know that packaging converters in our customer base have experienced the same.

### **While Miraclon can pass along higher costs, some customers might feel less confident about being able to. Are there any actions you recommend they take to make the case for raising their own prices?**

We understand that it may be daunting, but there are ways to make it easier. One is to do what we set out to do in this document — explain why current market conditions make it necessary. But it's important only to pass on genuine costs that can be demonstrated and justified. The inflation price increase and temporary freight surcharges that we are introducing are designed to simply cover the increased costs we are experiencing in our own business, not to generate additional margin. Unfortunately, that does not seem to be true of all players in the value chain. You only need look at the reset in YOY profit margins within the shipping and transportation sector to uncover the disparity.

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## Miraclon remains committed to driving growth by enabling our customers to grow their own businesses profitably.

By contrast, Miraclon remains committed to driving growth by enabling our customers to grow their own businesses profitably.

Our customers also have another big factor in their favor, which is that everybody — consumers, families, and businesses — know that inflation is happening, and that supply chains are subject to disruption. So, announcing a price rise should not come as a surprise, because if we can't pass on increased costs now, we won't have a business in the future. Ensuring all players in the value chain get a fair return is the only way to guarantee a healthy and resilient supply chain.

## In Miraclon's view, what is the outlook for the industry in general, and the company in particular?

One thing that has surprised us over the last two years is the increased demand for our products we've seen. That's the major reason we've moved heaven and earth to secure supply, because our customers have been producing a lot of packaging and they know that our technology enables them to do that efficiently and cost effectively. In some cases, the pandemic has boosted a customer's business. The disruption in global supply chains, for example, has encouraged brands to 'reshore' production from overseas to their home markets.



### Chris Payne, Miraclon CEO

Chris Payne was appointed as CEO of Miraclon in April 2019. Prior to this role, Chris was President of Kodak's Flexographic Division for three years preceding the division's sale and was therefore the natural choice for the role of CEO.

In his current position, Chris draws on over 30 years' experience and a successful track record of growing and managing high technology imaging businesses. He spent 10 years at Kodak in various roles including General Manager and Vice President of Kodak's Flexographic Packaging Solutions Division, where he had the responsibility for growing the business.

Before joining Kodak, Chris worked in a number of roles for companies within the print and imaging industry, including NexPress Solutions LLC and Xeikon.

Chris graduated with top honours from Edinburgh Napier University where he studied Printing, Administration and Production.

Find Chris on [LinkedIn](#).

