

Key Insights from L.E.K. Consulting's 2023 US Packaging Brand Owner Study



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About L.E.K. Consulting

We're L.E.K. Consulting, a global strategy consultancy working with business leaders to seize competitive advantage and amplify growth. Our insights are catalysts that reshape the trajectory of our clients' businesses, uncovering opportunities and empowering them to master their moments of truth. Since 1983, our worldwide practice — spanning the Americas, Asia Pacific and Europe — has guided leaders across all industries from global corporations to emerging entrepreneurial businesses and private equity investors. Looking for more? Visit www.lek.com.

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Introduction

L.E.K. Consulting conducted our sixth annual proprietary US packaging study in the fourth quarter of 2023, in which we analyze how players in the packaging value chain can differentiate their offerings in order to best meet the needs of brand owners and, by extension, their investors. We published a series of four articles revealing our findings from the study. This report synthesizes all of our insights from that series, including:

Importance of Packaging Innovation: Brand owners are placing a significant emphasis on packaging, particularly in the realm of sustainability. Investments in optimizing the cost-to-value balance through material changes reflect a strategic shift towards eco-friendly practices.

Trends Shaping Packaging Decisions: The industry is witnessing a convergence of trends influencing brand owners' packaging choices, including sustainability imperatives, the surge in ecommerce, and the integration of digital tools by packaging suppliers to enhance efficiency and competitiveness.

Impact of Brand Performance on Packaging: Brand performance and SKU dynamics play a pivotal role in packaging strategies. Rationalizing SKUs to boost profitability while introducing new SKUs for innovation remains a key focus for brand owners looking to streamline operations and drive growth.

Packaging Sourcing Strategies: Brand owners are recalibrating their packaging sourcing strategies, with a focus on normalizing inventory levels and increasingly favoring domestic sourcing. Ecommerce-specific, sustainable, and cost-effective packaging solutions are at the forefront of their agenda, presenting converters with unique opportunities for differentiation through innovative design approaches.



Brand Owner Sentiment Points to Attractive Opportunities for Packaging

Brand Owner Sentiment Points to Attractive Opportunities for Packaging

Brand owners, more than ever before, believe that packaging is imperative to selling their products and are willing to invest in their packaging as it represents just a small percentage of the value of the products they sell. In addition to their optimistic outlook for packaging and continued emphasis on the importance of packaging to a brand's success, they're increasingly focused on the sustainability of their packaging. They're also still more than willing to change packaging materials to optimize the balance of cost-to-value and will likely continue to do so over the medium term as they believe they're exhausting their ability to pass through incremental packaging cost increases to consumers, for whom prices have remained high despite the rate of inflation edging lower.

In the meantime, across end markets, brand owners largely expect finished goods inventory levels to normalize over the next year, back to pre-COVID-19 levels, as consumers trade back up to branded products and supply chain issues subside, which would bring an end to the "stocking" pressure felt by converters during 2023.

That's according to L.E.K. Consulting's sixth annual proprietary packaging study, which it conducted in the fourth quarter of 2023 and which makes clear how players up and down the packaging value chain can differentiate their offerings in order to best meet the needs of brand owners and, by extension, their investors and lenders.

About the study

L.E.K. surveyed 400 U.S. brand managers and packaging stakeholders across a variety of brand end and sub-markets, types, and sizes to understand their packaging needs and get their views on the trends driving demand.

Similar to prior years, the 2023 study looks at the impact of stock-keeping unit (SKU) dynamics on packaging, changes to packaging materials, the implementation of sustainable packaging initiatives, the implications of ecommerce on packaging, and how the macroeconomic environment has impacted companies' packaging sourcing strategies and associated costs.

In addition to highlighting how brand owners' views on these topics have shifted over the past few years, this year's study also makes clear how inventory management has evolved across various end markets, how new SKU introductions/SKU rationalization

programs are tied to product innovation and financial performance, and how brand owners view the adoption of digital tools by their packaging suppliers.

The study targeted brand managers and other packaging decision-makers at consumer packaged goods companies who were responsible (or directly involved in making decisions) for

- A consumer brand that is sold at least in the U.S. but may also be sold into international markets
- A brand within the food, beverage, beauty and personal care, household and healthcare, and/or consumer electronics end markets

The big issues in 2023

For this year's study, we sought to dive deeper into the most pressing issues on the minds of brand owners with a range of questions:

- **Packaging trends and associated spend** – How important is packaging to a brand's success, and how does relative spend on packaging vary by end market and customer segment? What level of packaging cost increases have brand owners passed on to consumers? What changes have brands made to their packaging, and what changes do they expect to implement over the next four years? What has been driving changes in packaging materials used over the past several years, and what changes do they expect to implement over the next several years?
- **Megatrends' impact on packaging** – How do brand owners define sustainable packaging, what percentage of brand owners have a 2025 (or medium-term) sustainability goal and what level of progress has been made toward that goal? How do brand owners expect their sustainable material usage to trend over the next several years, and what primary actions do they expect to take? What percentage of brand owners use ecommerce-specific packaging formats, which features are they introducing and why?
- **Impact of brand performance and SKU dynamics on packaging** – What are the key drivers for any changes in the number of new SKU introductions? What aspects of product innovation, if any, are driving the introduction of new SKUs? How have SKU rationalization programs impacted the financial performance of brands?

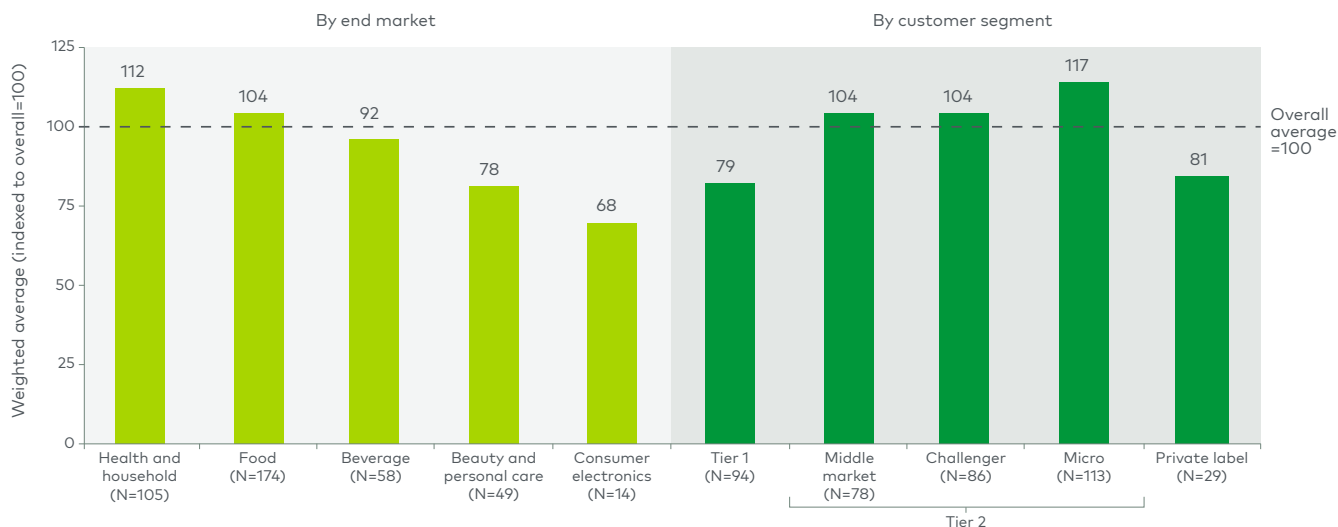
- **Brand owner packaging sourcing strategies** – How has inventory carried by brand owners evolved over the past four years? When do brand owners expect a return to pre-COVID-19 stock levels of on-hand finished goods? What are brands' geographic sourcing strategies?

Packaging trends and associated spend

Similar to prior years' findings, packaging is viewed as critical to the success of a brand; even in the face of challenging macroeconomic conditions, the percentage of brand owners who agree with that sentiment rose to 98% from 84% in 2022. Middle market (\$750 million-\$2.49 billion in annual revenue) and micro (less than \$250 million in annual revenue) brands in particular emphasize the importance of packaging.

The reported importance of packaging on brand success, meanwhile, is relatively similar across end markets, with beauty and personal care brand owners indicating slightly higher importance relative to the others. Packaging spend as a percentage of retail selling price is highest for health and household products and lowest for consumer electronics. And Tier 1 (\$2.5 billion or more in annual revenue) brands tend to spend less on packaging (as a percentage of the retail selling price) than do their smaller peers (see Figure 1).

Figure 1
Relative spend on packaging for primary brand SKUs, by end market and customer segment* (2023)



*Survey questions: How has your spend on packaging, as a percentage of retail selling price, for your primary brand's top SKU, changed over the last four years? How do you expect spend on packaging to change for your top SKU over the next four years?

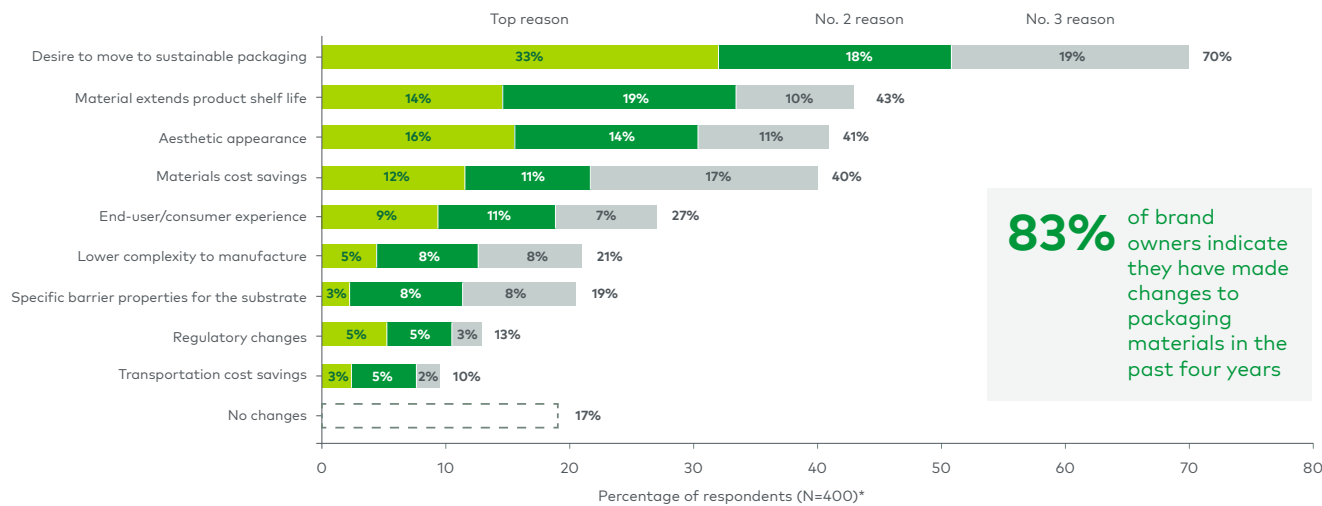
Note: SKUs=Stock Keeping Units

Source: L.E.K. 2023 Packaging Survey

Also notable in this year’s study is how respondents indicate they passed along, on average, 16% in packaging cost increases to customers from mid-2002 to mid-2023 — and believe they can pass through an incremental 3% without driving a notable decline in sales.

This year’s study also demonstrates that brand owners have a strong willingness to change packaging materials to improve the sustainability profile of their packaging, with 70% indicating that they’ve done so over the past four years, followed by a desire to extend the shelf life of their products and change their aesthetic appearance (see Figure 2).

Figure 2
Drivers for change in packaging materials over the past four years (2023)



*Survey questions: In the past four years (2019-23), have you made any changes to the packaging material (e.g., glass, metal, plastic) that you use for your primary SKUs? What are the top reasons you changed your packaging materials? Please select up to 3, by order of importance
Source: L.E.K. 2023 Packaging Survey

Looking ahead, roughly 65% of brand owners plan to change their packaging to increase share of sustainable packaging over the next four years compared to approximately 45% over the past four. As such, converters with strong portfolios of sustainable packaging offerings have a significant opportunity to displace incumbent providers. And as brand owners continue to spend more on packaging and look to

improve brand success, they expect not just to prioritize changing primary packaging graphics, shapes and labels, but also to increase the sustainability of their packaging.

To learn more, please see our next summary of study findings, which looks at the impact that various megatrends are having on packaging¹. Be sure as well to read about the impact of brand performance and SKU dynamics², and the packaging sourcing strategies³ that brand owners are leveraging. If you would like access to the full results, please request them from industrials@lekinsights.com.

Endnotes

¹LEK.com, "The Trends Driving Brand Owners' Packaging Decisions." <https://www.lek.com/insights/ind/us/ar/trends-driving-brand-owners-packaging-decisions>

²LEK.com, "Annual Packaging Study: What Happened to SKU Proliferation?" <https://www.lek.com/insights/ind/us/ar/annual-packaging-study-what-happened-sku-proliferation>

³LEK.com, "Annual Packaging Study 2023: The Great Stocking/Destocking Saga and Its Aftermath." <https://www.lek.com/insights/ind/us/ar/annual-packaging-study-2023-great-stockingdestocking-saga-and-its-aftermath>



The Trends Driving Brand Owners' Packaging Decisions

The Trends Driving Brand Owners' Packaging Decisions

Sustainability may mean slightly different things to different people, but nearly all brand owners are making it a priority in their packaging strategies, as evidenced by their plans to continue shifting a significant portion of their total packaging spend to sustainable packaging by 2027.

And sustainability isn't the only megatrend that brand owners are continuing to focus on as 2024 gets underway. Ecommerce continues to be a factor in their packaging decisions — and with online channels expected to gain more share through 2027, it is one that has them customizing their brands' packaging. In addition, brand owners now want their packaging suppliers to adopt digital tools, in particular tools that improve supply chain visibility.

This is all according to L.E.K. Consulting's sixth annual proprietary packaging study¹, which we conducted in the fourth quarter of 2023; the study makes clear how players in the packaging value chain can differentiate their offerings in order to best meet the needs of brand owners and, by extension, their investors.

Sustainability

The first megatrend, sustainability, is a multifaceted term whose meaning, at least according to brand owners, is continuously evolving. In 2023, the most often used definition (and one of four cited by the Sustainable Packaging Coalition, in addition to "contains recycled content," "[is] manufactured using renewable energy" and "contains compostable material") is packaging that contains biodegradable material. The prevalence of this factor has jumped 22 percentage points since our 2022 study, a net increase edged out only by "produced with lower greenhouse gas emissions" (see Figure 1).

Figure 1

Brand owners' definition of sustainable packaging (2023)

Contains biodegradable material	Is reusable	Is produced with lower greenhouse gas emissions	Is from a supplier that supports environmental initiatives	Contains recycled content	Has a lower carbon footprint in manufacturing	Is recyclable	Is manufactured using renewable energy	Contains compostable material	Has lightweight packaging	Has lower carbon footprint in transportation	Has minimal material	Has minimal material types
2023 study												
65%	52%	50%	49%	45%	45%	40%	38%	36%	32%	32%	32%	30%
Change in percentage points (2022-23)***												
+22 PPT	+12 PPT	+23 PPT	+21 PPT	+9 PPT	+7 PPT	+10 PPT	+6 PPT	(2 PPT)	(6 PPT)	N/A	(5 PPT)	(8 PPT)

Percentage of respondents (N=400)*



Mentioned in Sustainable Packaging Coalition's definition of sustainable packaging**



Top three criteria in 2022 packaging study



Orange color indicates a (-) percentage change

*Survey questions: How do you define "sustainable packaging"? Please select all criteria that may qualify a specific type of packaging as "sustainable"

**Corresponds to the following criteria, which are part of multiple criteria in the Sustainable Packaging Coalition's definition: "Is sourced, manufactured, transported and recycled using renewable energy" and "Optimizes the use of renewable or recycled source materials"

***N/A indicates response option was not in prior year's survey

Source: Sustainable Packaging Coalition; L.E.K. 2023 Packaging Survey

Regardless of how brand owners define sustainability, it continues to be a priority for them. Nearly all (approximately 95%) of the brand owners we surveyed reported having a "medium-term" sustainability goal, led by Tier 1 firms (97%). What that looks like in practice, however, has changed. For a majority or near-majority of the brand owners who took our survey, that includes switching to packaging produced with cleaner energy (58% vs. just 29% in the prior four years) to packaging that can be produced with lower levels of greenhouse gas emissions (56% vs. 29% from 2019 to 2023) and packaging that is manufactured using renewable energy (46% vs. 28%).

In the meantime, as in our 2022 packaging study, owners of brands with sustainability goals say they've achieved about 45% of those goals to date. To that end, the amount of money brand owners plan to spend on sustainable packaging is forecast to grow from an average of 45% of their total packaging spend in 2023 to 60% by 2027, which is in line with the 15 percentage point increase reported from 2019 to 2023.

Most notable, however, is that a whopping 91% of brand owners say they have adequate access to the sustainable materials necessary to meet their needs — an increase of some 20 percentage points over 2022.

Ecommerce

The increasing prevalence of ecommerce and online sales in brands' channel mix is expected to continue over the next several years, across all markets, driven primarily by growth in ecommerce marketplaces as brick-and-mortar sales continue to decline.

According to our study, 84% of brand owners have made changes to packaging for products sold through online channels. And much like in 2022, the top three changes they're making are updating labeling, improving package design to better withstand transit and introducing tamper-evident features in order to meet ecommerce packaging demands.

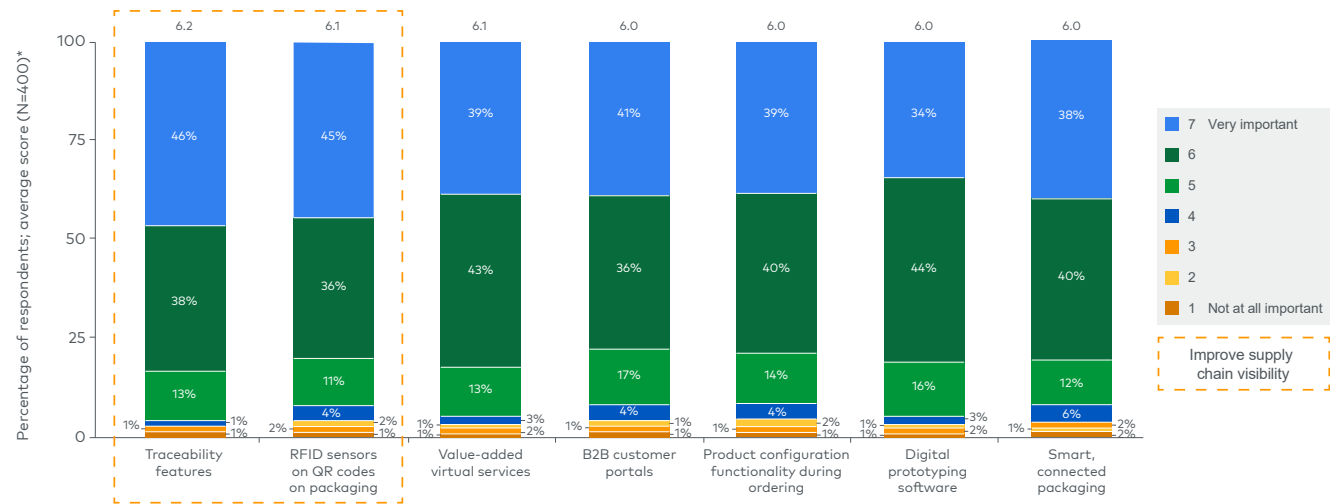
In the meantime, when it comes to ecommerce packaging, brand owners are also introducing unique online stock-keeping units (SKUs) — primarily to align with ecommerce fulfillment requirements and ensure performance throughout fulfillment — and adding tamper-evident features.

Digital tools

The third and final megatrend — an issue of key importance for brand owners — is the adoption of digital tools on the part of packaging suppliers. Of particular importance are tools that bolster supply chain visibility, such as traceability features and radio-frequency identification sensors on packaging QR codes, followed by business-to-business customer portals, valued-added virtual services, product configuration functionality during ordering, smart/connected packaging and digital prototyping software (see Figure 2).

Figure 2

Brand owners' perceived importance of digital tool adoption by packaging suppliers, by technology type (2023)



*Survey question: How important is it to you that your packaging suppliers have adopted the following digital tools? Please rate on a scale of 1 to 7, where 1 means "not at all important" and 7 means "very important"

Note: RFID=radio-frequency identification; QR=quick response; B2B=business-to-business

Source: L.E.K. 2023 Packaging Survey

To learn more, please see our next summary of study findings, which looks at the impact of brand performance and SKU dynamics. Be sure to also read about the packaging sourcing strategies that brand owners are leveraging as well as the latest packaging trends and associated spend². If you would like access to the full survey results, please request them from industrials@lekinsights.com.

Endnotes

¹LEK.com, "Brand Owner Sentiment Points to Attractive Opportunities for Packaging." <https://www.lek.com/insights/ind/us/ar/brand-owner-sentiment-points-attractive-opportunities-packaging>

²Ibid.



Annual Packaging Study: What Happened to SKU Proliferation?

Annual Packaging Study: What Happened to SKU Proliferation?

Many brand owners, who in a bid to increase margins and limit innovation costs had already begun reducing the number of stock-keeping units (SKUs) in their portfolios in 2019 shortly before COVID-19 hit, plan to continue with their SKU rationalization through at least 2024. However, some brand owners have continued to maintain a commitment to new product innovation and say they'll continue to launch new branded product SKUs over the next year, citing product innovation and the introduction of sustainable packaging.

That's according to L.E.K. Consulting's sixth annual proprietary packaging study¹, which we conducted in the fourth quarter of 2023 and which makes clear how players in the packaging value chain can differentiate their offerings in order to best meet the needs of brand owners and, by extension, their investors.

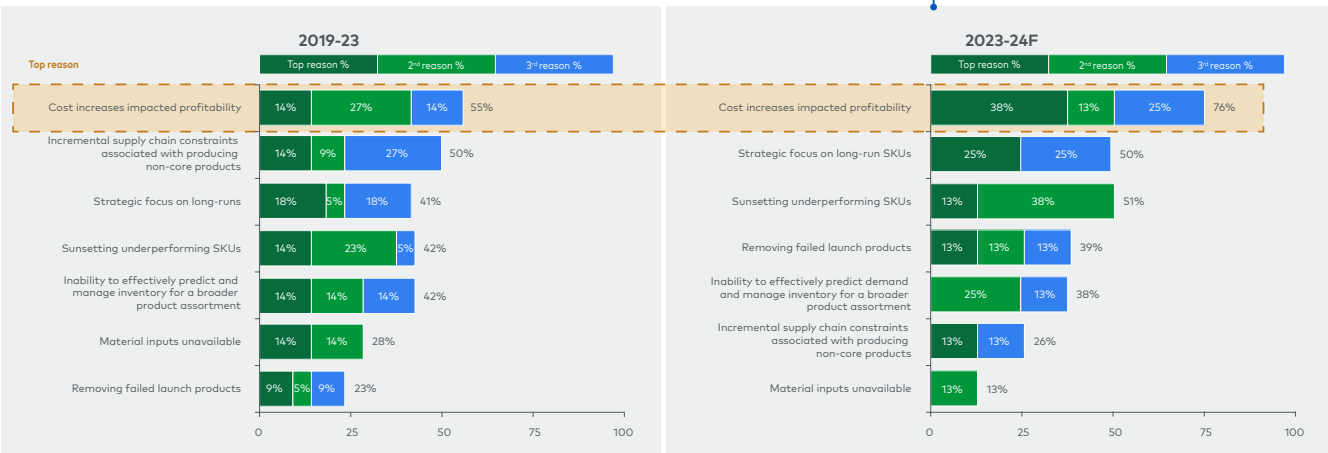
Impact of brand performance and SKU dynamics on packaging

Whereas historically, brand owners emphasized broadening the range of SKUs they offered in order to attract new customers or react to new consumer behavior and trends, most — including some of the largest and most recognizable consumer brands, such as Unilever, Coca-Cola and Tyson, among others — have shifted their SKU portfolio strategies in recent years to focus on their most profitable products in order to boost margins and cap innovation costs. Indeed, COVID-19 and the supply chain disruptions it created only accelerated those brands' SKU rationalization strategies as they focused on long-run "core" SKUs to meet market demand.

Going forward, cost mitigation associated with new SKUs and a strategic focus on core SKUs are expected to become increasingly important themes. In fact, heading into 2024, even more brand owners say minimizing the impact of cost increases on profitability is the top reason they will reduce their number of SKUs (see Figure 1).

Figure 1
Drivers of reduction in number of SKUs for primary brands, historically and forecast

Percentage of respondents that selected as a top 3 reason (N=22)*



*Survey question: You indicated you have reduced/you expect to decrease the number of SKUs for your primary brand since 2019/over the next year. Which of the following contributed to your decision to reduce/decrease the number of SKUs?
Note: SKU=stock-keeping unit
Source: L.E.K. 2023 Packaging Survey

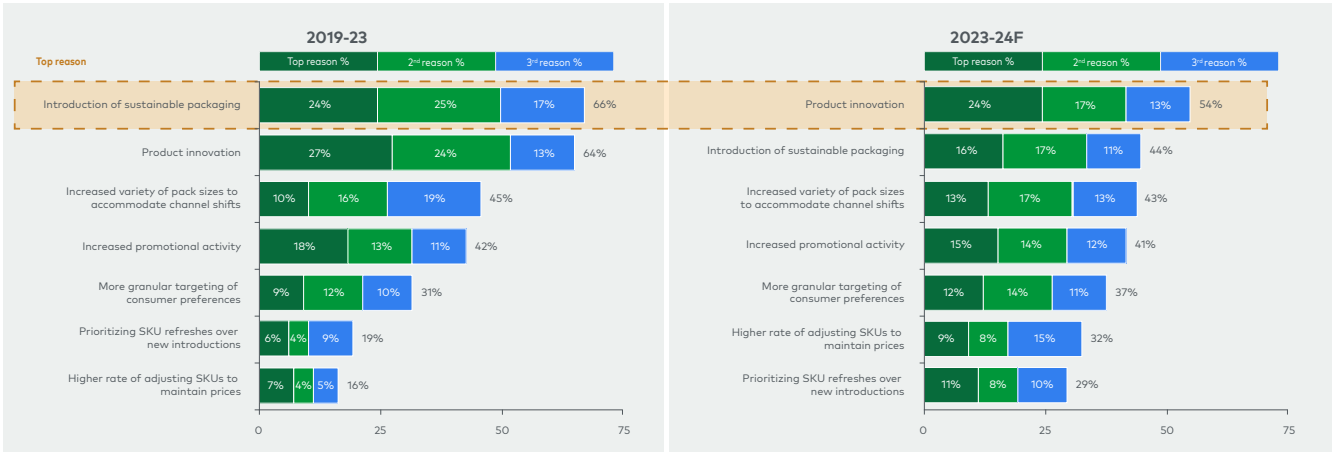
To be sure, the SKU rationalization strategy is working, according to the respondent sample in our study. The decrease in SKUs has contributed an estimated 65-90 basis points (bps) to brands' gross margins relative to 2019, and over the next year, continued SKU rationalization is expected to result in accelerated profitability improvement, adding another estimated 150-175 bps.

But not every brand is decreasing SKUs — some are adding more.

Brand owners that have increased SKU count offerings since 2019 cite the introduction of sustainable packaging, product innovation and an increase in the variety of pack sizes to accommodate channel shifts as the top three drivers. And while their relative rankings have shifted slightly for 2023-24 —product innovation now takes the top spot, while the introduction of sustainable packaging has moved to No. 2 — the top drivers cited by brand owners remain the same as they were for the past four years (see Figure 2).

Figure 2
Drivers of increase in number of SKUs for primary brands, historically and forecast

Percentage of respondents that selected as a top 3 reason (N=323)*

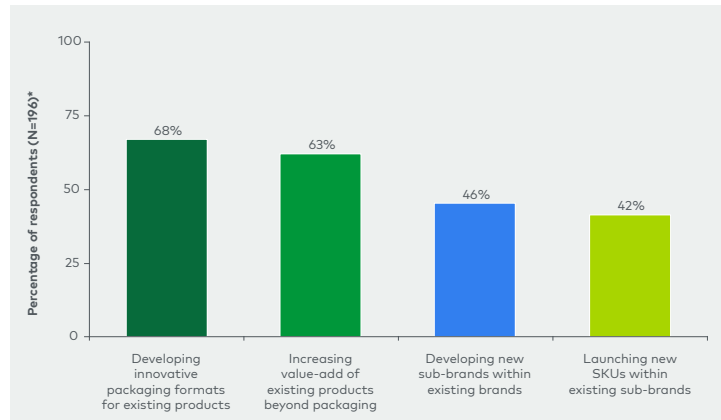


*Survey question: You indicated you have increased/you expect to increase the number of SKUs for your primary brand since 2019/over the next year. Which of the following contributed/contributes to your decision to increase the number of SKUs?
Note: SKU=stock-keeping unit
Source: L.E.K. 2023 Packaging Survey

When it comes to the top driver of SKU introduction cited by brand owners for 2023-24 — product innovation — the majority of brand owners cite developing innovative packaging formats for existing products. Other reasons include increasing the value-add of existing products beyond packaging, developing new sub-brands within existing brands, and launching new SKUs within existing sub-brands (see Figure 3).

Figure 3

Aspects of product innovation that are driving increase in SKU count over the next year



Recent examples of developing innovative packaging formats

**PANTENE**

In certain geographies, Pantene launched aluminum bottles for its shampoo and conditioner, designed to be refilled with product sold in recyclable stand-up pouches

PANTENE**DAWN**

Dawn, a dishwashing liquid brand, released an "EZ-Squeeze" bottle for its dish soap, allowing consumers to skip opening lids and flipping bottles while doing dishes

**WEST PAW**

To help minimize mess during feeding and to improve ability to feed on the go, West Paw, a dog product manufacturer, now offers its dog food products in squeezable pouches

West Paw

*Survey question: You indicated that product innovation is expected to be a primary driver of increasing SKU count over the next year (2023-24). What are the aspects of product innovation that your company is most focused on in the near-term?

Note: SKU=stock-keeping units

Source: Packaging World; L.E.K. 2023 Packaging Survey

To learn more, please see our next summary of survey findings, which looks at the packaging sourcing strategies² that brand owners are leveraging. Be sure to also read about the latest packaging trends and associated spend as well as the impact various megatrends are having on packaging³.

Endnotes

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Annual Packaging Study 2023: The Great Stocking/Destocking Saga and Its Aftermath

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Brand owners, which since 2019 have been increasing their inventory levels in a bid to decrease risk, largely expect their inventory levels to return to pre-COVID-19 levels in 2024 as demand growth recalibrates and supply chain issues subside. And by 2027, after steadily increasing the share of packaging sourced from the U.S. over the past few years, they expect that share to hit 85%, driven by a desire for suppliers that can serve short-run needs at compelling lead times.

















That's according to L.E.K. Consulting's sixth annual proprietary packaging study¹ that we conducted in the fourth quarter of 2023 and makes clear how players in the packaging value chain can differentiate their offerings in order to best meet the needs of brand owners and, by extension, their investors.

Brand owner packaging sourcing strategies

After low inventory levels in 2020-21 and mixed stocking/destocking trends in 2022, brand owners largely expect inventory levels to normalize across end markets — namely food, beverage, beauty and personal care, and health and household — by the end of 2024 (see Figure 1).

Figure 1

Summary of inventory-level evolution since 2019, by end market

	2020–21*	2022*	2023–24*
 Food	 <p>Low inventory levels, heightened by increase in demand for more perishable goods</p>	 <p>Softening consumer demand and easing of supply chain constraints drove increased inventory levels</p>	 <p>Expected to have finished destocking in 2023, slowly returning to normalized inventory levels</p>
 Beverage	 <p>Generally low inventory levels, with movement toward stocking at the end of 2021</p>	 <p>Some stocking, followed by a quick destocking period</p>	 <p>Inventories are expected to return to pre-COVID-19 levels by the end of 2024</p>
 Beauty and personal care	 <p>Lower demand spikes relative to the other end markets drove increases in stocking levels</p>	 <p>Personal care brand owners looked to destock their built-up supplies</p>	 <p>Inventories are expected to stabilize at pre-COVID-19 levels</p>
 Health and household	 <p>Increased COVID-19-related demand for household goods and healthcare products drove low inventory levels</p>	 <p>Stock levels increased during 2022 as pandemic-driven demand surges decreased</p>	 <p>Continued normalization of stocking levels toward pre-pandemic standards</p>

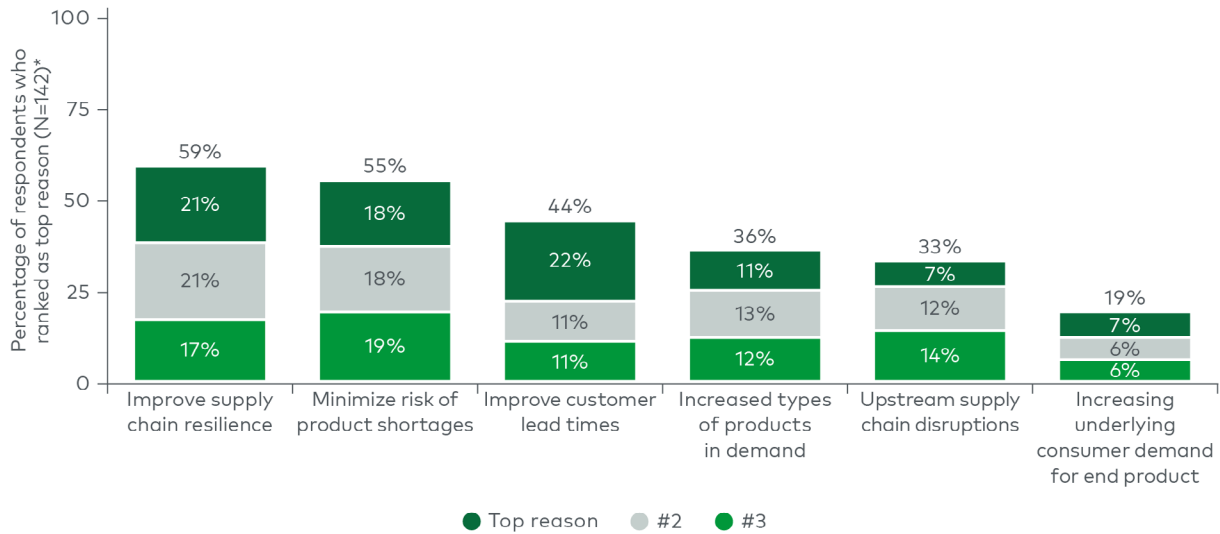
Decreasing      Increasing

*Survey question: How did the total days of inventory you were carrying for your primary brand in 2020 compare relative to days of inventory in 2019? What about 2021, 2022 and today (2023) relative to days of inventory in 2019? How do you expect 2024 days of inventory to compare to 2019?
Source: L.E.K. 2023 Packaging Survey

As to those brand owners that keep elevated inventory levels, they cite a desire to improve supply chain resilience as their top reason (59% of responses), followed by a desire to minimize the risk of product shortages and improve customer lead times (see Figure 2).

Figure 2

Top drivers of increased inventory of on-hand finished goods since 2019



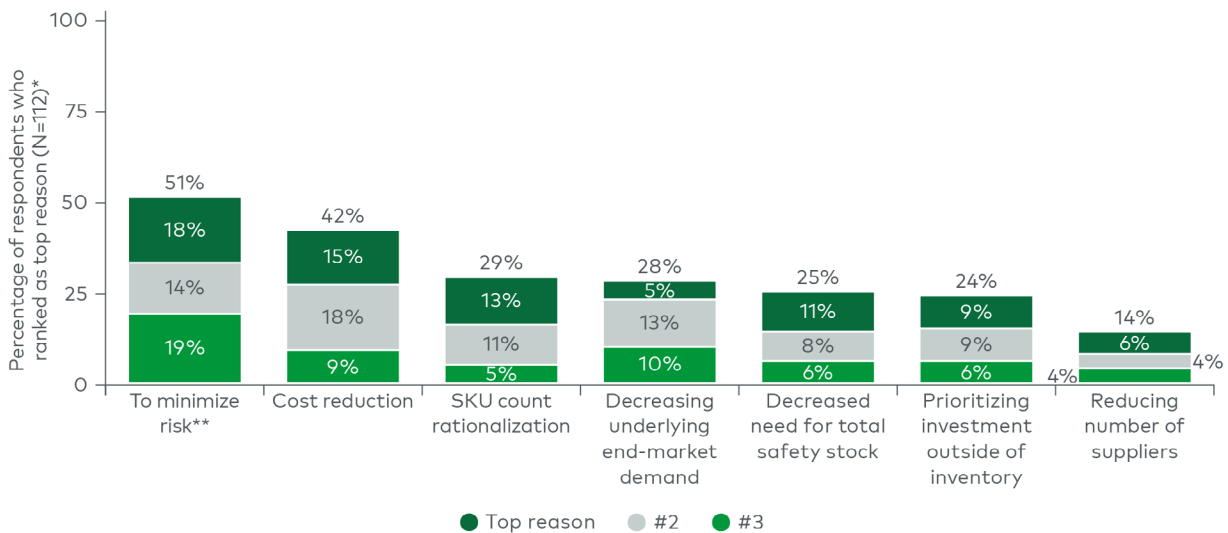
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Source: L.E.K. 2023 Packaging Survey

Conversely, brand owners that are keeping lower-than-normal inventory levels are primarily doing so in order to minimize risk (51% of responses), cut costs and rationalize stock-keeping unit (SKU) counts. They also cite falling end-market demand, a decreased need for total safety stocks, investment priorities other than inventory and a move to reduce the number of suppliers they use (see Figure 3).

Figure 3

Top drivers of decreased inventory of on-hand finished goods since 2019



*Survey question: How did the total days of inventory you were carrying for your primary brand in 2020 compare relative to days of inventory in 2019? What about 2021,2022 and today (2023) relative to days of inventory in 2019? How do you wxpect 2024 days of inventory to compare to 2019? What are the key reasons why your stock level of on-hand finished goods and inventory accumulated through the channel for your primary brand today is higher than 2019 levels?

Source: L.E.K. 2023 Packaging Survey

Meanwhile, brand owners have increased their domestic sourcing of packaging in the past few years, and they expect this trend to continue, rising from 84% in 2023 to a predicted 86% in 2027 due primarily to suppliers' increased level of responsiveness and their ability to serve short-run needs, as well as the improved lead times that come with domestic sourcing.

So while for the most part inventory levels have normalized, continued restocking to pre-COVID-19 levels continues to be a demand tailwind for converters heading into 2024. Indeed, domestic converters with the ability to produce short runs are well positioned to gain share as brand owners onshore their packaging production.

An evolving packaging picture

Packaging is considered critical to the success of a brand. And as our survey results over the past six years have demonstrated, brand owners prioritize packaging that is specific to ecommerce and are increasingly looking for packaging that is both U.S.-sourced and made with sustainable materials.

What's changed in the past year, however, is that brand owners are more than willing to change packaging materials to keep their costs down — and notably, Tier 1 brands are spending less on packaging relative to their smaller branded peers, more in line with that of private-label brands. Brand owners are also rationalizing SKUs and introducing new SKUs primarily due to product innovation and, by extension, new packaging formats. But converters can offset the impact of SKU rationalization by differentiating themselves with innovative packaging designs.

Finally, in a bid to improve supply chain resilience and minimize the risk of product shortages, most brand owners expect their inventory to reach pre-COVID-19 levels in 2024 as supply chains issues subside.

To learn more, please see our summaries of the survey findings detailing the latest packaging trends and associated spend, the impact that various megatrends are having on packaging², and the impact of brand performance and SKU dynamics³. If you would like access to the full results, please request them from [**industrials@lekinsights.com**](mailto:industrials@lekinsights.com).

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Amanda Davis Winters

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