



2018 Brand Owner Packaging Survey

L.E.K. Consulting recently surveyed more than 200 U.S. brand managers and packaging stakeholders to understand their packaging needs and views on trends driving demand.

The survey focused on topics that include:

- Brand trends and their effect on packaging demand
- Shifts within packaging (e.g., new materials, packaging innovations)
- Perspectives on packaging demand (including forecast spend on packaging for their brands)

This *Executive Insights* analyzes key findings from this proprietary research.



The 2018 L.E.K. Consulting Brand Owner Packaging Survey was conducted by **Thilo Henkes**, Managing Director; **Jeff Cloetingh**, Principal; and **Amanda Davis Winters**, Senior Engagement Manager, in L.E.K. Consulting's Paper & Packaging practice. Thilo and Jeff are based in Boston, and Amanda is based in New York.

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Packaging demand affected by broader trends

Brand owners have been affected by several trends that have led them to pursue these product initiatives in the past five years:

- Introducing more sub-brands, products and SKUs
- Launching one or more product/packaging innovations
- Optimizing pricing and promotional strategies

Product packaging is affected more than two-thirds of the time by these initiatives.

Out of more than 200 brand owners surveyed:

49%

introduced more sub-brands, products and SKUs

59%

launched new product and packaging innovations

60%

implemented new pricing and promotion strategies



65%

of brand owners say their product packaging has been affected by these changes

More key findings ►

Shift toward sustainability and more formats

The packaging landscape is going through a transformation, and our survey uncovered three notable shifts.

An increase in sustainable packaging:

Approximately 40% of brand owners reported some change toward sustainable packaging in the past two years, and the majority of brand owners plan to move a portion of volume to sustainable packaging in the future.

More packaging formats: To combat pricing pressures, nearly half of brand owners plan to expand their price-pack architecture offering over the next five years, which will increase the number of packaging formats.

Shorter, more profitable packaging runs:

As brand owners continue to launch new products and SKUs proliferate over the next five years, L.E.K. Consulting believes packaging runs will continue to be shorter — and more profitable.

Out of more than 200 brand owners surveyed:



Most

plan to move **a portion** of volume to sustainable* packaging in the next five years



50%

plan to expand price-pack architecture in the next five years

*Sustainable packaging material is defined as anything that includes biodegradable, recycled or compostable content.

More key findings ►

Demand and forecast spend remain strong

Packaging plays a key role in a brand's success. The majority of brand owners reported that packaging is important to their brand's success.

Packaging is crucial to both brand and private-label owners. Packaging was rated high in importance by both branded and private-label brand owners.

Investment in packaging is a priority. Half of brand owners expect to increase spending on packaging next year.

Recessions have a positive impact on packaging. Brand owners typically employ strategies that positively impact packaging demand during slow economic growth, such as introducing more value sub-brands or SKUs, or adding more SKUs to capture shelf space.

Out of more than 200 brand owners surveyed:



More than **80%**
reported packaging is important to their brand's success



Packaging's importance was rated on average **5.5**
out of 7, with 7 being
"very important"



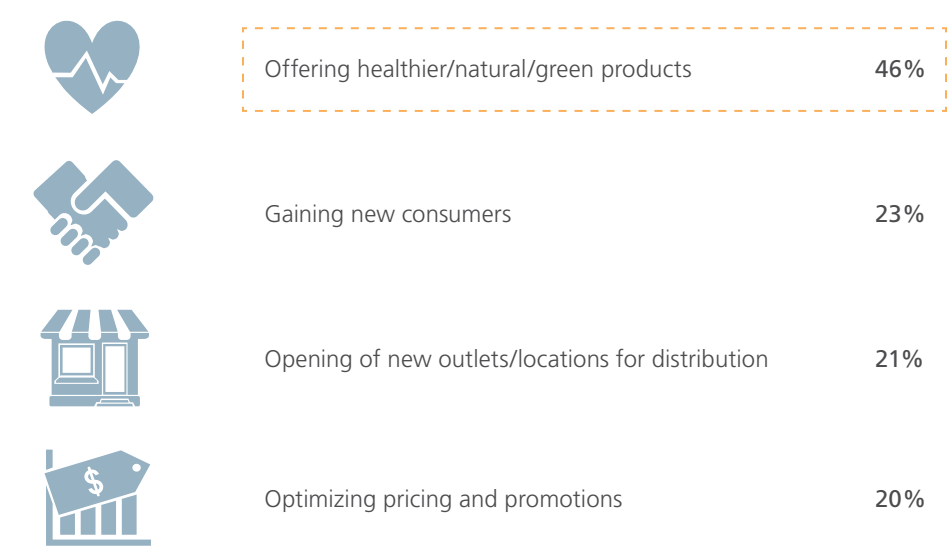
50%
expect to increase package spend next year

Key drivers
for growth ►

Healthy and “green” products drive recent brand growth

Over the past five years, brand owners have found healthy, natural and environmentally friendly products haven’t only been good for their customers and the planet — they’ve also been good for their companies’ bottom line. In fact, 23% of survey respondents cited healthier/natural alternatives as a top driver of growth, while 23% said environmentally friendly products had the greatest impact.

Top drivers of brand growth, past 5 years
Percentage of respondents indicating one of the following as a top driver (n=204)



Note: [Q] Which of the following were the biggest drivers of growth for your primary brand over the last 5 years?
Source: L.E.K. 2018 Packaging Survey

More key
findings ►










Brand owners face competition proliferation and pricing pressures

Those surveyed expect to face specific barriers to growth over the next five years, with increasing competition ranking the highest, followed by pricing pressures and rising labor costs tied for second. Of note, pricing pressures rank as the highest challenge among 49% of beauty & personal care brand owners, while 40% of healthcare consumer brand owners expect regulatory and legislative pressures to challenge growth. And 29% of those surveyed in the food & beverage industry believe rising distribution costs will pose a threat to growth.

Challenges to growth over the next 5 years

Percentage of respondents indicating each is a top challenge (n=204)

 = particularly relevant to the end market

			 Food & beverage (n=89)	 Beauty & personal care (n=35)	 Healthcare (n=25)	 Pet & household (n=28)
	Increasing competition	31%	29%	29%	32%	36%
	Pricing pressures	26%	17%	49%	28%	29%
	Rising labor costs	26%	26%	26%	20%	36%
	Rising distribution costs	21%	29%	14%	12%	14%
	Regulatory and legislative pressures	19%	17%	14%	40%	14%

Note: [Q] Which of the following do you expect to be the most significant growth barriers over the next 5 years?

Source: L.E.K. 2018 Packaging Survey

**Rising competition
impacts packaging** ►

Competitive pressure affects packaging decisions

In an effort to ride market tailwinds and combat the headwinds, brand owners have launched myriad initiatives to improve brand positioning, some of which have affected packaging. For instance, unique packaging has been used to signify a new product launch, introduce a new brand, or convey special pricing and promotions to consumers.

Have any of these brand changes affected your brand's packaging over the last 2 years?
Percentage of respondents that indicated "yes" (n=204)



Note: [Q] You previously mentioned a few ways you have improved your primary brand's positioning. Have any of these brand changes affected your primary brand's packaging as a result of the changes made to improve your primary brand's positioning in the last 2 years?

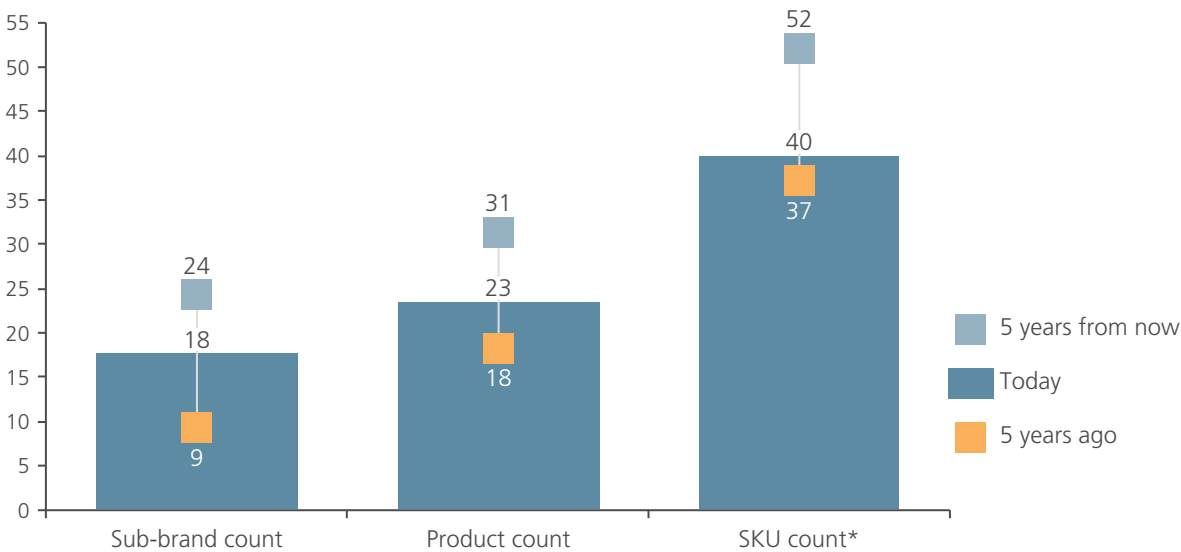
Source: L.E.K. 2018 Packaging Survey

**More SKUs on
the horizon** ►

SKU, sub-brand and product proliferation trend continues

Both branded and private-label brand owners plan to continue launching more sub-brands, products and SKUs over the next five years. And while growth is trending upward for both groups, branded brand owners expect to launch a greater number of sub-brands, products and SKUs than private-label brand owners. For instance, branded brand owners on average expect to launch 57 new SKUs in the next five years versus 38 new SKUs for private-label brands.

Average number of sub-brands, products and SKUs (2012, 2017, 2023F)
Mean number of respondents (n=204)



Note: [Q] How has the number of total sub-brands/different products available/different SKUs from your primary brand evolved over the last 5 years? How do you expect it to evolve over the next 5 years? *Includes year-round and seasonal/promotional SKUs
Source: L.E.K. 2018 Packaging Survey

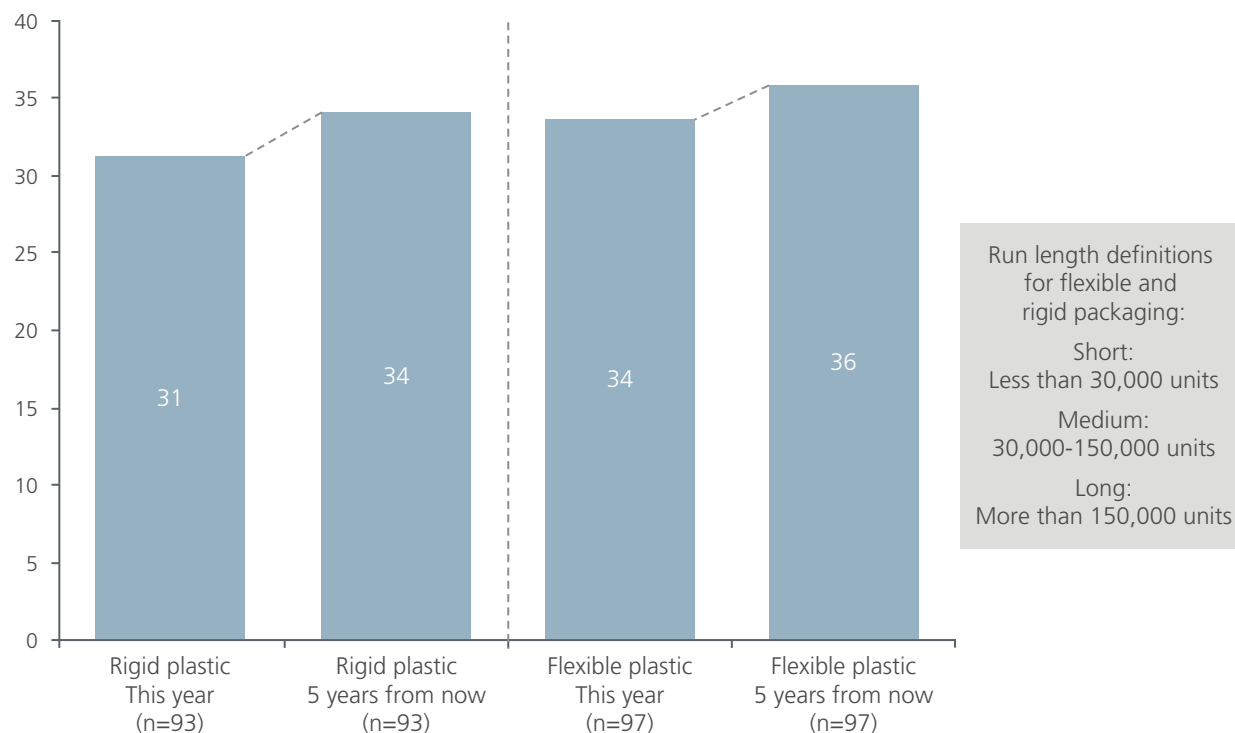
SKU fragmentation means shorter runs ►

Shorter run lengths gaining share at expense of longer run lengths

Brand owners indicate that SKU fragmentation has been a major driver for shorter packaging runs over the past five years. And this trend is not expected to slow down: The number of shorter runs is only expected to increase over the next five years.

Prevalence of “short runs” for branded products (2018, 2023F)

Percentage of runs (n=204)



Note: [Q] Across your brands that utilize [rigid plastic/flexible plastic], how has your use of various run lengths changed in the past 5 years? How do you expect them to change in the next 5 years?

Source: L.E.K. 2018 Packaging Survey

**Product innovations
impact packaging** ►

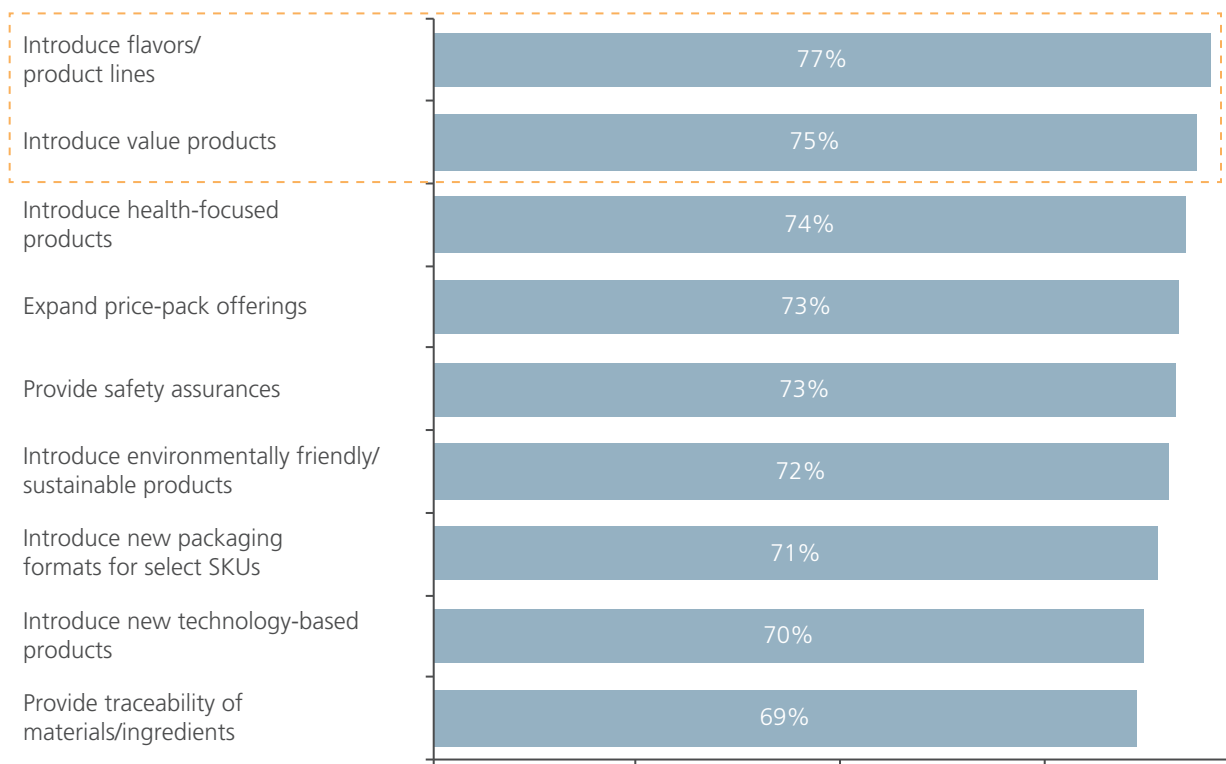
Packaging keeps pace with product innovations

A number of product innovations have driven changes to packaging in the past two years. For instance, the good/better/best pricing of “value” products can often lead to differentiated packaging. Another example is the expansion of price-pack offerings — which often leads to greater packaging variety within a brand.

Packaging also communicates brand-new flavor profiles, the latest and greatest technology features, the degree to which products are “clean label,” and a product’s health benefits or safety claims. And as environmentally friendly, green products grow in popularity, brands want not only their products to be sustainable but their packaging to be as well.

Have any of these brand changes affected your brand’s packaging in the past 2 years?

Percentage of respondents that indicated “yes” (n=204)



Note: [Q] You previously mentioned a few ways you have improved your primary brand’s innovation. Have any of these brand changes also affected your brand’s packaging in the past 2 years?
Source: L.E.K. 2018 Packaging Survey

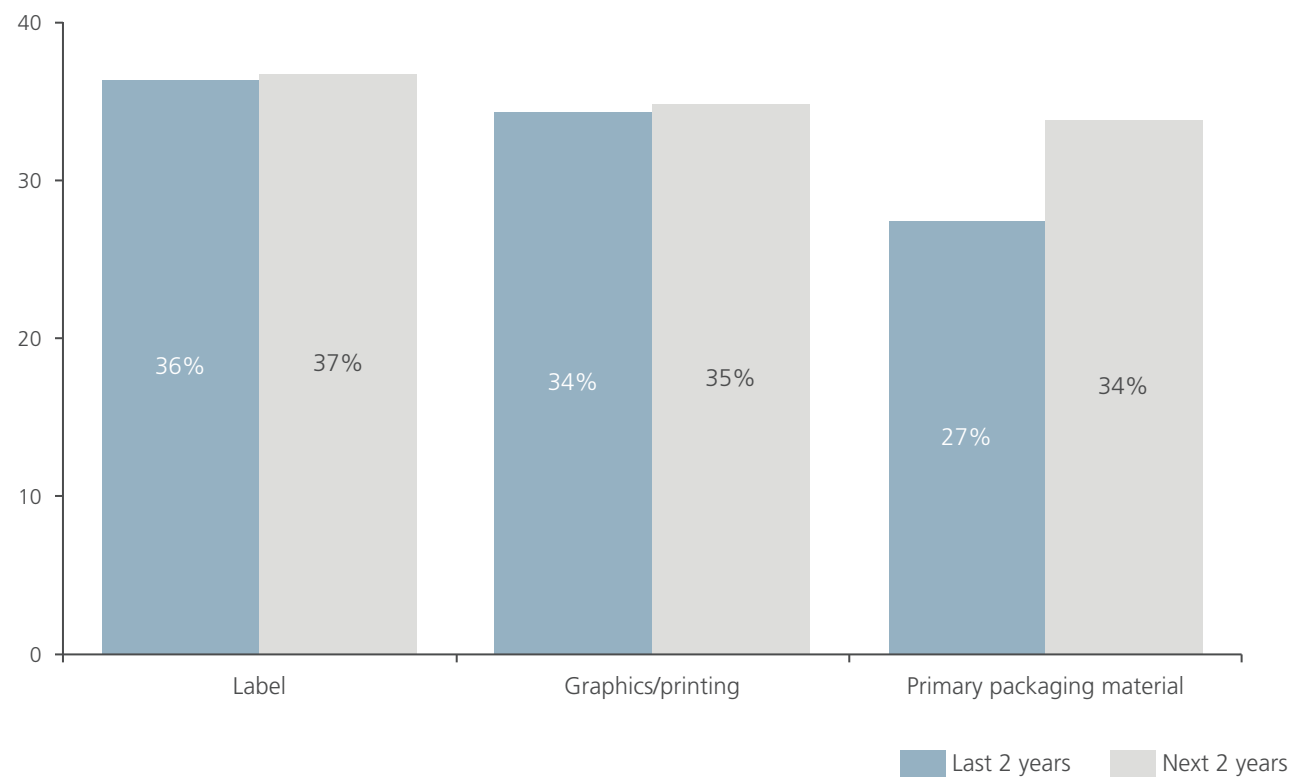
**Outlook on packaging
innovations** ►

Innovations expected in labels, graphics and materials

Brand owners expect to continue the trend of implementing packaging changes over the next five years, specifically in labels, graphics/printing, primary packaging materials, secondary packaging materials and packaging shapes. Other key findings include:

- Flexible plastic is expected to continue outpacing growth of other packaging materials
- Most respondents plan to move a portion of volume to sustainable packaging in the next five years
- Brand owners expect to make changes to labels and graphics as a way to differentiate products (e.g., through use of digital printing)

Changes in brand packaging, historical and forecasted
Percentage of respondents reporting changes (n=204)



Note: [Q] Have you made any of the following changes to your primary brand packaging in the last 2 years?
Do you expect to make any of these changes in the next 2 years?
Source: L.E.K. 2018 Packaging Survey

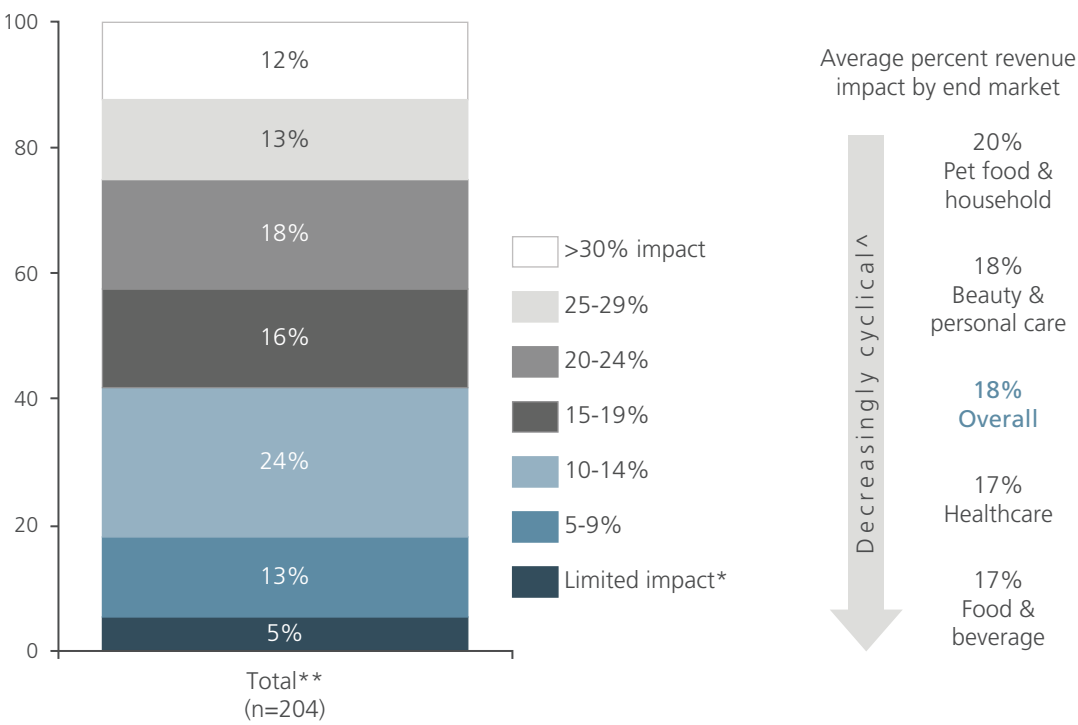
**Packaging during
a recession** ►

Recessions adversely affect brand sales

More than half of brand owners indicate that a typical recession is likely to have more than a 15% revenue impact on their brand. And their typical response is to employ pricing strategies that positively affect packaging demand.

The estimated average impact to revenue across end markets surveyed was similar, ranging from 17% (food & beverage) to 20% (pet & household).

Average percentage revenue impact on brand sales in a recession
Percentage impact on sales (n=204)



Note: [Q] In your best estimate, what would the total retail sales impact be if there was a U.S. economic recession for your primary brand? *Limited impact includes 0-4%, limited impact and "I don't know" responses; **Total includes "other consumer goods" category; ^Cyclical defined as >15% impact on brand sales in a recession.
Source: L.E.K. 2018 Packaging Survey

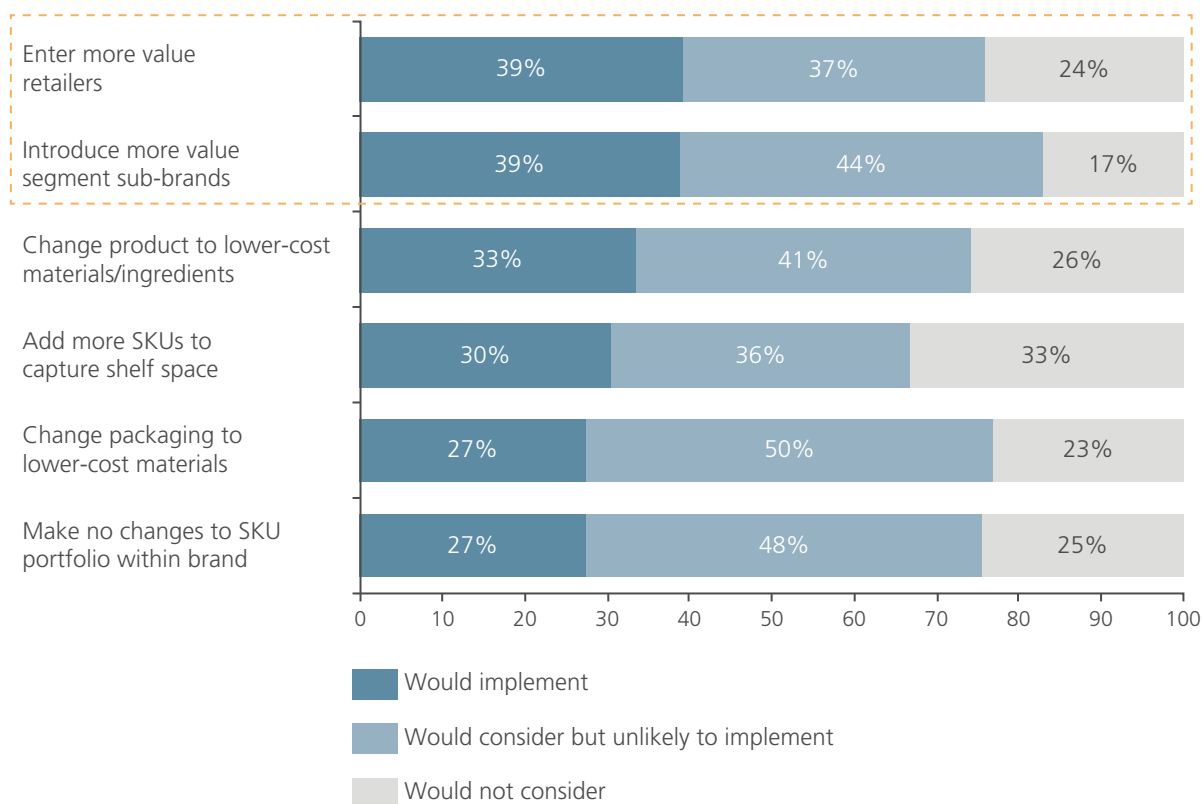
Employing pricing strategies during recessions ►

Recession-era strategies expand diversity of brand owner packaging needs

L.E.K. Consulting found that price-pack architecture and value products are among the top pricing strategies brand owners employ during periods of slow economic growth. Consider high-end chocolatier Godiva, which post-recession began repackaging its chocolates in individually wrapped servings to compete in grocery store aisles against Ghirardelli and Lindt.

Other strategies include switching to lower-cost ingredients/materials and adding more SKUs to capture shelf space. For instance, Nature Valley recently introduced oat bar and organic brownie products to increase its presence in the natural snack category.

Likelihood of implementing recession actions (2018)
Percentage of respondents (n=204)



Note: [Q] What actions would you consider and implement during a U.S. economic downturn for your primary brand?
Source: L.E.K. 2018 Packaging Survey

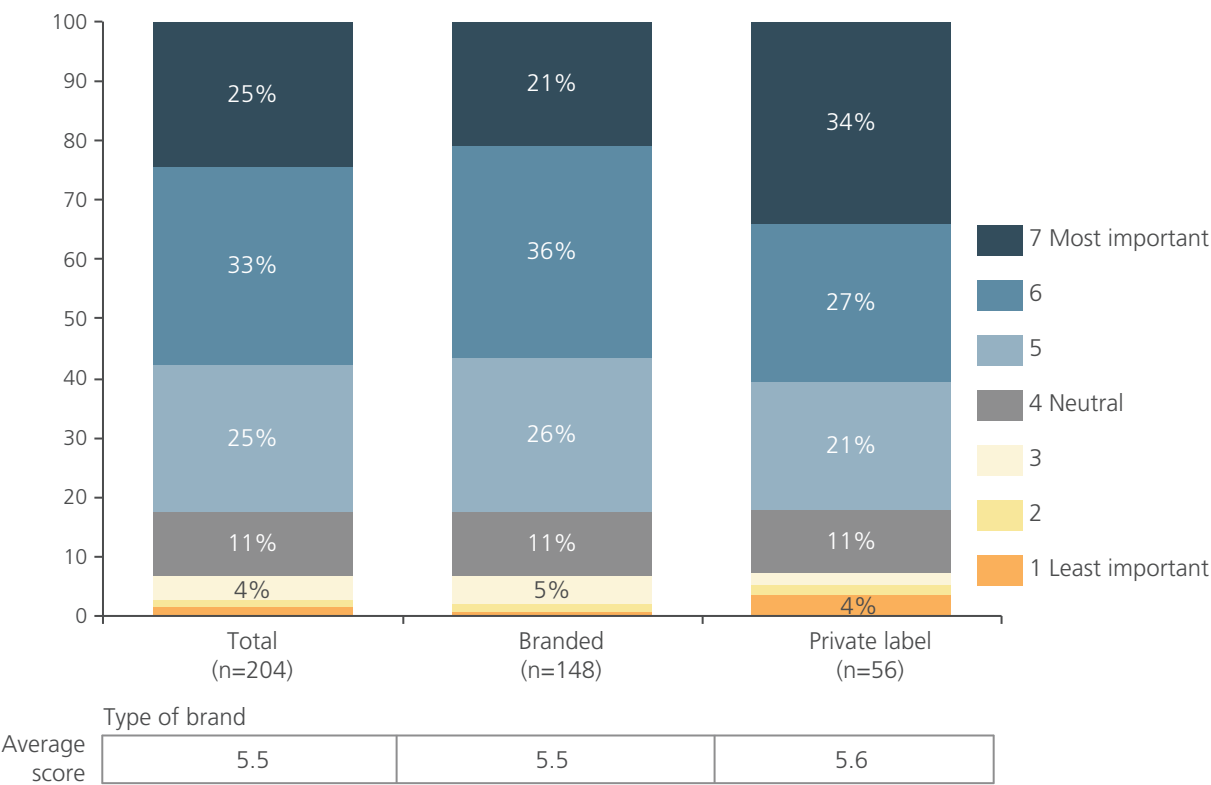
**Packaging integral to
brand's success** ►

Packaging crucial to brand’s success

More than 80% of packaging brand owners responding to the survey reported that packaging is important to their brand’s success. Across end markets, beauty & personal care and food & beverage brand owners tend to see the value of packaging and its effect on their brand’s success the most, while it ranked less important to healthcare brand owners in comparison.

Importance of packaging to a brand’s overall success, by brand type and by brand end market (2018)

Percentage of respondents, ranked on a scale of 1 to 7 (n=204)



Note: [Q] How important do you think packaging is to the success of your primary brand? Please rate the importance of packaging on a scale of 1 to 7 where 1 = “Not at all important” and 7 = “Very important.” **“Other consumer goods” includes computer/electronics, jewelry, shoes.
Source: L.E.K. 2018 Packaging Survey

An uptick in packaging spend ►

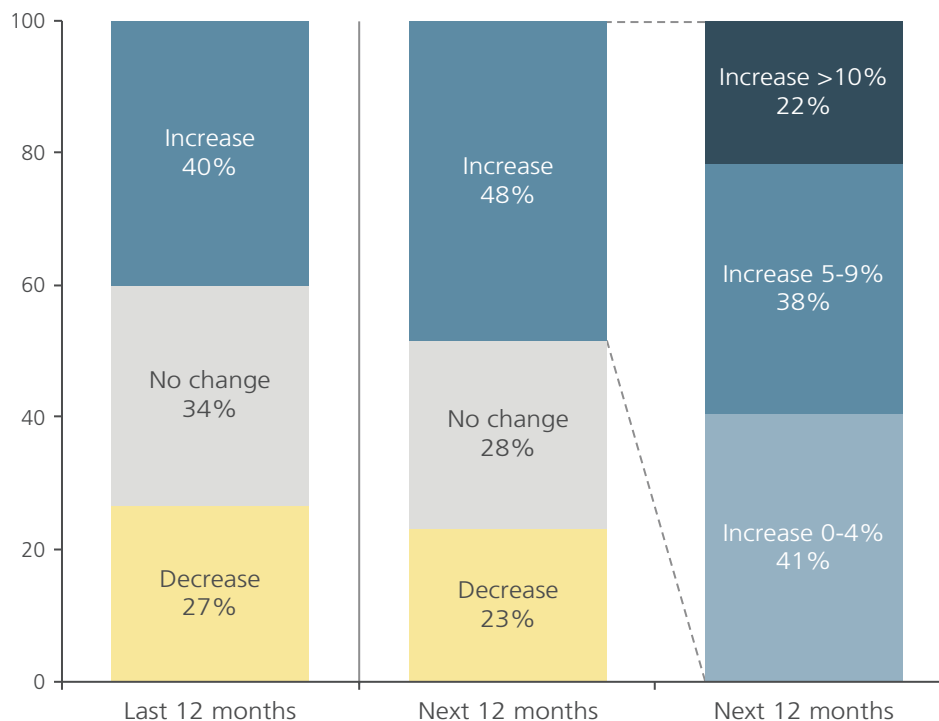
Packaging spend expected to grow

Nearly 50% of brand owners anticipate increasing packaging spend next year. And of those brand owners, 22% expect to increase spend by more than 10%.

Other key findings among brand owners who plan on increasing spend:

- Branded brand owners expect to increase an average of approximately 6%
- Private-label brand owners expect to increase an average of roughly 7%, which is likely driven by room for growth in private-label growth and premiumization within the private-label category

Change in packaging spend, historical and forecasted
Percentage of SKUs (n=204*)



Note: [Q] How has your spend on packaging for each of your primary brand SKUs changed over the last 12 months? How do you expect spending to change for each SKU over the next 12 months? *Includes spend estimates for 900+ SKUs given by 204 respondents.
Source: L.E.K. 2018 Packaging Survey

Survey methodology

L.E.K. Consulting surveyed more than 200 brand managers and other packaging decision-makers at consumer packaged goods companies in December 2017 to gather information on brand trends and their impact on packaging demand, shifts within the packaging sector (e.g., new materials, packaging innovations) and perspectives on packaging demand, including forecast spending.

About the Authors



Thilo Henkes is a Managing Director and Partner in L.E.K. Consulting's Boston office and leads the firm's Paper & Packaging practice. Thilo is also active in the firm's Building Products & Materials, Industrial Equipment and Private Equity practices. He joined L.E.K. in 2000 and has more than 18 years of consulting experience specializing in transaction support and developing post-acquisition, value-enhancing strategies for portfolio companies.



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About L.E.K. Consulting

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