



Packaging Cuts Through the Clutter

Insights from the 2019 L.E.K. Brand Owner Packaging Study

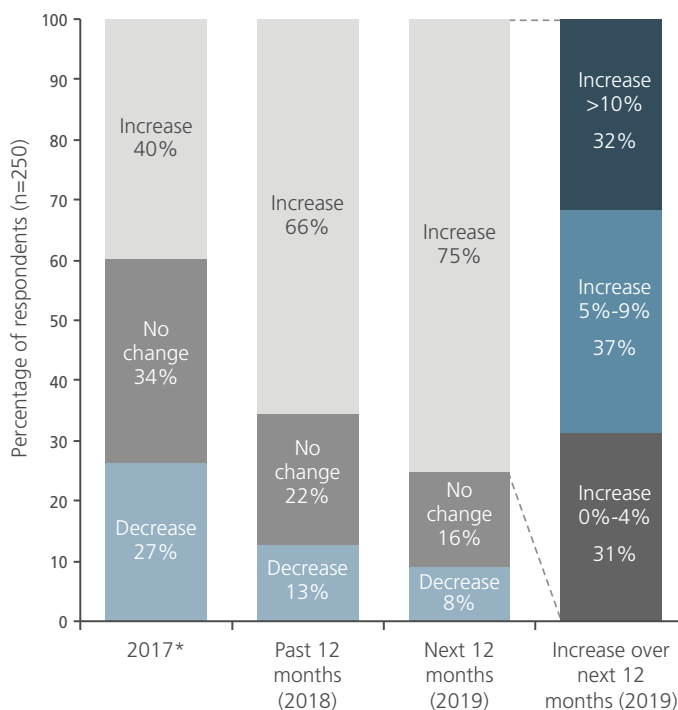
Brand owners for consumer packaged goods (CPGs) face an increasingly competitive landscape coupled with rapidly changing consumer tastes and preferences. As they seek to adapt to industry pressures, they often turn to one powerful item in their toolkits: packaging. In an effort to inform our views and better understand packaging decision-maker needs and perspectives, in Q1 2019 L.E.K. Consulting conducted its second annual Brand Owner Packaging Study with 250 brand owners across the CPG spectrum, including food, beverage, pet products, healthcare and personal care.

Our findings underscore the growing significance of packaging: A full 90% of brand owners say that packaging is important to their brand's success. In fact, they rate the importance of packaging at 5.7 out of 7, with 7 being "very important," up from 5.5 in 2018.

Reflecting their belief in the central role of packaging, brand owners are planning to open their wallets. Three-quarters (75%) anticipate an uptick in packaging spend next year — up from 40% who predicted an increase in 2017 and 65% in 2018. Of those who plan to raise spending, nearly a third (32%) expect to do so by more than 10% (see Figure 1).

Figure 1
Spend on packaging

Change in packaging spend, historical and forecasted (2017, 18, 19F)



Source: L.E.K. 2018-19 Packaging Survey (n=250); From L.E.K. 2017-18 Packaging Survey

Packaging Cuts Through the Clutter was written by **Thilo Henkes** and **Jeff Cloetingh**, Managing Directors, 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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To get a deeper understanding of the environment in which packaging decisions are made and why brand owners see packaging as a critical element of their brand's strategy, we asked them to choose both the top three growth drivers and top three barriers to their business. We also asked them to peer into the future and say how they believe these drivers will shift and what impact they will have on packaging. Our findings reveal six consumer trends with particular importance for packaging (see Figure 2).

Figure 2
Drivers of brand growth

Percentage of respondents indicating each is a top growth driver



Source: L.E.K. 2018-19 Packaging Survey (n=250)

1. Convenience is king

If there is one thing that characterizes today's consumer, particularly the increasingly important millennial consumer, it might be the phrase "I want it now." Brand owners say that over the past two years, demand for more convenient and "on the go" products has been a top driver of brand growth. Brand owners in the pet and household categories were significantly more likely than those in beauty and personal care to view convenience as a growth driver (27% versus 18%).

Clearly, new product formats that emphasize convenience will call for major changes to packaging, and brand owners are responding in a number of ways, including developing packaging that is easier to open (57% of respondents), developing more single-serve package sizes (51%), and stepping up placements in new distribution channels, such as convenience stores (49%). The increase in single-serve options in particular will likely require the use of more packaging materials, while package redesign might be necessary when entering new distribution channels (see Figure 3).

Figure 3
Percentage of respondents taking the following actions to adapt to consumer interest in convenience

	Developed packaging that is easier to open	57%
	Developed more single-serve package sizes	51%
	Entered new distribution channels (e.g., store types)	49%

Source: L.E.K. 2018-19 Packaging Survey (n=250)

2. Premium plays a plum role

With the rise of Instagram and other social media platforms, consumers are turning more often to premium products as a way to convey their unique personal tastes and preferences. This trend has led 42% of brand owners in our survey to expand their premium offerings. In addition, 35% are changing their promotional strategies, while 32% are expanding their price-pack offerings — an array of packaging size and attribute options that capitalize on different consumer trends (see Figure 4). Packaging is usually central to the marketing of premium offerings, since it is often the packaging quality and graphics that signal a product's high-end status. Brand owners will need to think about packaging when making changes to price-pack offerings, since these often have unique requirements.

Figure 4
Percentage of respondents taking the following packaging actions to adapt to consumer interest in premium products

	Expanded premium product offerings	42%
	Changed promotional strategy	35%
	Expanded price-pack offerings	32%

Source: L.E.K. 2018-19 Packaging Survey (n=250)


3. Customization is key

A broad array of new technologies has made product customization far more feasible at a cost-effective price point. As a result, consumers have gained a fondness for specialized products that cater to their particular tastes and needs. Brand owners say consumers' penchant for customization has been an important growth driver for them over the past two years, and an equal number expect it to continue to have this effect for the next two.

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Consumer preference for customized offerings has resulted in a flurry of new subproducts and stock-keeping units (SKUs) that micro-target distinct buyer groups or address highly specific consumer needs. For example, more than half of brand owners have increased product personalization in the past two years, and 42% have implemented additional customization of their products (see Figure 5). This trend is not expected to abate anytime soon, which may be why brand owners say they plan to launch an average of 91 new SKUs over the next two years, compared with only 64 two years ago — an increase of 42%. Because each additional subproduct calls for differentiated and effective packaging, there is likely to be considerable activity in this area as SKUs proliferate.

Figure 5
Percentage of respondents taking the following packaging actions to adapt to consumer interest in customization

	Increased personalization of products	52%
	Implemented additional customization of products	42%

Source: L.E.K. 2018-19 Packaging Survey (n=250)

4. Healthy holds its own


Demand for more healthy products or products containing natural ingredients is stronger than ever, and respondents considered it to be one of their top three growth drivers over the past two years. Responses varied by industry, with 25% of beauty and personal care respondents pointing to this as a growth driver, compared with only 17% of food and beverage respondents and 15% of respondents in the pet and household products sector. Interestingly, while 23% of local or niche brands considered it to be a growth driver, only 5% of global brand owners felt the same way.

Companies have addressed the healthy trend by making adjustments to their product offerings and substituting more healthy or natural ingredients. For example, 60% of brand owners introduced all-natural or nonprocessed products in the past two years, and 53% introduced “health-focused products” during this period (see Figure 6). As a result, brand owners have had to revamp product labeling on their packaging.

It’s worth noting that a number of national and smaller regional brands are developing healthy products designed to take market share from the larger global brands. Given that these healthy products are often offered at higher price points, brand owners see packaging as an effective way to articulate the product’s

healthy and natural messaging to an increasingly discerning health-conscious consumer.

Figure 6
Percentage of respondents taking the following packaging actions to adapt to consumer interest in healthy products

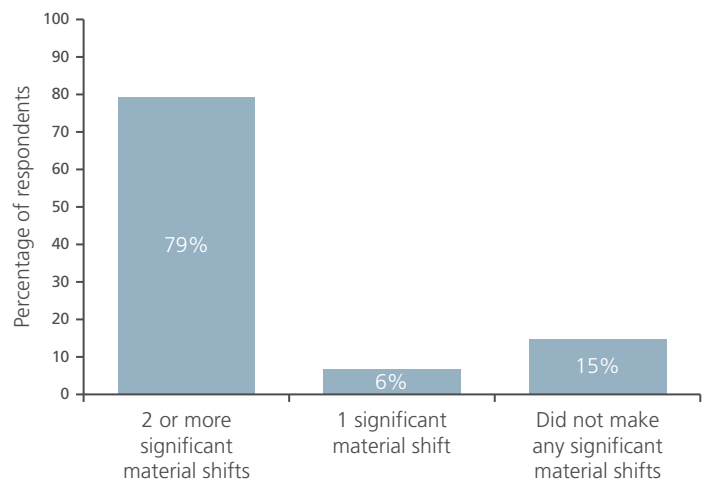
	Introduce all natural/nonprocessed products	60%
	Introduced health-focused products	53%

Source: L.E.K. 2018-19 Packaging Survey (n=250)

5. Green is growing

Environmentally friendly products and services have begun to move out of their corner niches onto center stage. The growth in green is the combined result of consumer demand, corporate public relations initiatives and greater (mostly local) regulation. Brand owners, regardless of company size, see this as a top growth driver over the next two years, and packaging will certainly play a critical role in the transition to more sustainable products. In fact, a shift has already begun. For example, respondents report that the use of sustainable packaging material has grown in the past two years, with the trajectory expected to continue through 2020. Around 85% of respondents made at least one significant change to packaging substrate material in the past two years, most frequently because it increased ease of recycling (see Figure 7). Finally, brand owners expect that the value of packaging

Figure 7
Percentage of respondents who made shifts in material substrate in the past two years (2016-18)



Source: L.E.K. 2018-19 Packaging Survey (n=250)

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containing biodegradable, recycled or compostable material will grow by 30% to 40% in the next two years.


6. Ecommerce expands rapidly

It comes as no surprise that more and more consumers are choosing to shop online. While 17% of brand owners considered the shift to ecommerce to be a growth driver over the past two years, 23% expected it to drive growth over the next two years — more than any other trend. Growth from ecommerce also varied by industry, with 25% of those in beauty and personal care pointing to it as a source of growth, compared with only 12% in the food and beverage sector. Response also differed depending on brand reach and company size: Companies with smaller, local or niche brands were more likely to consider ecommerce as a growth driver.

Brand owners have turned to a variety of strategies in response to the shift to ecommerce: 55% say they have entered new digital channels in the past two years, 47% implemented mobile on-demand ordering, and 47% have increased investment in their websites (see Figure 8). As more consumers choose to shop online and have goods shipped directly to their homes, brands will need to make changes to packaging to protect against breakage or to maintain freshness during the delivery process. It is also important that any packaging changes maintain a consistent look and feel across multiple channels.

Figure 8

Percentage of respondents taking the following packaging actions to adapt to consumer spend on ecommerce



Entered new digital channels (e.g., Amazon)	55%
Implemented mobile on-demand ordering	47%
Increased investment in own website	47%
Changed packaging to be more shipping-friendly	35%

Source: L.E.K. 2018-19 Packaging Survey (n=250)

A strong future for packaging

All indications are that brand owners consider ongoing investment in packaging to be critical to their brand's success. As the competitive landscape for brands continues to be shaped by consumer and other trends, packaging has the unique capacity to make products stand out in a crowded marketplace by communicating both valuable attributes and a potent brand message. It is both a literal and a figurative embodiment of the brand.

About the Authors



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