



How Sustainability Is Expanding the Packaging Pie

The plastics market is thriving, with global production increasing nearly three times faster than the world GDP. From the convenience of grocery bags and water bottles to the lifesaving properties of impact-resistant car parts and medical syringes, plastic is ensconced in our everyday lives. However, with increased plastic production comes proliferating plastic waste — and growing awareness of its effect on our environment.

As the spotlight on plastic pollution shines brighter, U.S. consumers have become empowered to use their wallets as an instrument of change, choosing sustainability over convenience in growing numbers. It seems inevitable, then, that “green” packaging will become increasingly prevalent, which raises a question: Can sustainable packaging and plastic packaging coexist in the same evolving landscape?

We contend that they can each succeed by expanding the pie of packaging substrates — growth that is being precipitated by the sustainability trend itself. This opens up opportunities for brands, packaging companies and investors to add another substrate to their quiver, particularly in the single-use product category, which is quickly gaining traction and consumer attention.

In this *Executive Insights*, we explore (1) how people, not government bans, are driving the sustainable packaging trend in the U.S. and (2) the actions major companies have taken in response to consumer-led pressures. Moreover, we delve into the product categories — particularly single-use items — that are ripe for conversion to sustainable packaging. We also discuss how brands, converters and investors can tap into the purchasing power of environmentally conscious consumers by adding another substrate to their packaging arsenal.

Consumer agenda drives sustainable packaging demand

As images of plastic-clogged oceans spur a tsunami of media attention, the sustainability movement has become a worldwide trend. But the drivers of change are vastly different depending on where you look. For instance, Europe has adopted a model of wide-sweeping national government regulation, beginning when France said *au revoir* to plastic bags in 2015, followed by the country’s total ban on plastic cups, plates and cutlery by 2020 — the first time a country has taken such action. Following suit, the EU recently passed a ban (which will take effect by 2021) on all single-use plastics, such as plates, cutlery, straws and even cotton swab sticks.

However, government bans on single-use plastic products are unlikely to reach American shores at a national level in the near or medium term. While single-use plastic bans have occurred at the state and municipal levels (e.g., New York’s ban of single-use Styrofoam food containers), the U.S. sustainability trend has been driven almost purely by consumers, who have become increasingly aware of the effect of nonsustainable products on

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What is sustainable packaging?

Although sustainable packaging may mean different things to different people, it is typically broken down into three categories: recycled, biodegradable and reusable.

Recycled content is made from pre- and post-consumer materials. Pre-consumer material includes waste from manufacturing, such as leftover metal from factories or construction work. Post-consumer material is created from waste that has been diverted from landfills after the consumer has used it (e.g., paper products).

Biodegradable content is any material that can be broken down through a biological process (using, e.g., bacteria or fungi). In reality, everything — even disposable diapers — will eventually break down, but the less time a product takes to degrade, the better. Bioplastics derived from natural sources, such as vegetable fats/oils or cornstarch, fall into the biodegradable category.

Reusable content is just that: It can be cleaned and subsequently reused. Examples include reusable shopping bags, corrugated cardboard boxes, pallets and durable bulk containers. CPG packaging can be added to that list as well, thanks to innovative organizations that are making reusability more convenient for companies and their customers.

Take for instance TerraCycle's Loop, a first-of-its-kind shopping platform that is disrupting the reusable packaging space. Launched as a pilot program in France and the northeastern U.S. this spring, Loop collects empty, durable packaging, cleans and refills it with the brand-specific product, and then returns the replenished container to the consumer. Loop is not only changing the relationship between consumers and their packaging, but is also creating an avenue for innovation as CPGs experiment with nondisposable, waste-free packaging for products ranging from ice cream to cleaning wipes.

the environment. Among those consumers, millennials — a cohort that will account for 40% of U.S. discretionary spending by 2020 — show a particular preference for sustainable packaging, underscoring the critical need for brands to revisit their business practices with an eye to ramping up sustainability.

Our 2019 Brand Owner Packaging Study, which polled 250 consumer packaged goods brand owners on packaging-related topics, shows that companies are listening: Nearly 85% of those surveyed made at least one significant shift in substrate material in the past two years, most commonly because it improved the ease of recycling the packaging for their products. Brand owners also report the use of sustainable packaging material has grown in the past two years, with growth expected to continue through 2020.

Backlash begets greener corporate initiatives

Who could have foreseen that a video of a sea turtle with a plastic straw lodged in its nostril would galvanize a movement? As that image went viral along with more pictures like it, the anti-plastic straw movement grew, public pressure mounted and corporations responded in kind. Starbucks, for example, will eliminate single-use plastic straws from its 28,000 stores around the world by 2020, offering strawless lids or alternative-material straw options instead. Disney is removing plastic stirrers and straws from all its locations worldwide by the end of 2019. McDonald's is testing straw alternatives in select U.S. markets and plans to derive all its packaging from renewable or recycled sources by 2025.

The list of companies that are listening to consumers and adopting a greener approach grows longer each day — and

the changes aren't confined to just plastic straws. Coca-Cola plans to collect and recycle the equivalent of every bottle or can it sells globally by 2030. Unilever is pledging to halve the waste associated with its products by 2020 and ensure all plastic packaging is designed to be reusable, recyclable or compostable by 2025. Consumers are being offered greener options (e.g., paper straws, plant fiber-based paper plates) in big-box stores like Walmart and Kmart. And sustainable packaging is gaining traction across end markets from foodservice to food and beverage to consumer products.

Single-use products primed for sustainable substrates

In the emerging sustainable packaging market, where does it make sense to play? While companies across all end markets have been compelled by their customers to take greener packaging approaches, the foodservice end market lends itself to single-use items ubiquitous in food consumption (e.g., straws, utensils, plates and takeout containers). And these items are used at a staggering rate; for instance, tens of billions of single-use utensils are used every year in the U.S. alone. Foodservice has also been on the front lines of the consumer-led environmental backlash, most visibly with the anti-straw movement, and has been highly susceptible to the market-driving force of the green-minded consumer. It's no surprise that traction is growing in the single-use sustainable product market, with plenty of growth yet to come.

Does this mean the beginning of the end for plastic? Will consumers be eating their takeout with potato-starch bioplastic forks, with no plastic ones in sight? While it's true that foodservice ware by its very nature can create a zero-sum game

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(e.g., Starbucks' and Disney's complete replacement of plastic straws with more sustainable alternatives), there are plenty of opportunities for sustainable and plastic packaging to each succeed by expanding the pie of additional packaging substrates in various end markets and formats (see Figure 1).

More substrates mean more consumer choice

Imagine a quiver filled with three substrates used in three types of single-use dinnerware: plastic plates, paper plates and biodegradable plates. The budget-friendly plastic option may appeal to a consumer who makes buying choices based on cost or convenience, while the eco-conscious millennial consumer may choose to spend extra cash on the green option. The brand has two additional SKUs on the shelf, and the consumer has a choice of good, greener and greenest at three price points.

For instance, Albertsons Companies recently announced the expansion of its Open Nature brand of sustainable products, with the addition of "eco picnic" tableware and bamboo products. Each item has different green qualities, such as having no BPA or being manufactured from plant-based materials. As part of Albertsons' larger portfolio of private-label offerings, Open Nature offers eco-conscious consumers more options, while cost-conscious or premium-minded consumers have their pick of products from Albertsons' other private label brands.

Another example of expanding consumer choices: In 2016, CPG behemoth Unilever acquired eco-friendly cleaning supply

Flurry of M&As underscore growing trend

Recent M&A transactions reflect the profitable appeal of sustainable products, such as Hoffmaster Group's 2018 acquisition of Aardvark Straws, the sole U.S. producer of paper straws. Aardvark recently announced the opening of a new 100,000-square-foot paper straw manufacturing facility to meet the goal of increasing production capacity by 700% this year alone. Other notable transactions include Novolex's May 2018 acquisition of Waddington Group, a market leader in sustainable packaging, and Graham Partners' November 2017 acquisition of EasyPak, a thermoformer that offers food containers made from 100% recycled materials.

company Seventh Generation. This well-established brand offered something that didn't exist in Unilever's existing lineup: plant-based cleaning products sold in innovative, recyclable packaging.

Take, for example, its line of laundry detergents, available in 2X and 4X concentrations as well as an ultra-concentrated form. The 2X concentration bottle is composed of 100% post-consumer resin — an environmentally friendly packaging option made from recycled polyethylene terephthalate (PET) bottles and other plastics. Seventh Generation's 4X concentration boasts a bottle made from 70% recycled cardboard and 30% recycled newspaper. (The detergent itself is contained within a recyclable shell inside the bottle.) Most recently, the company rolled out

Figure 1
Shift of sustainable packaging across packaging substrates, formats and end markets



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its ultra-concentrated laundry detergent in a bottle made with 100% recycled PET. This compact 23-ounce bottle can churn out 66 loads and is geared toward easy dosing and more efficient shipping.

A sustainable future

Environmentally conscious U.S. consumers are driving the sustainable packaging trend, with no end to their enthusiasm in sight. There is outside opportunity for packaging converters, brands and investors to get in on the sustainable packaging trend by expanding existing product lines or product offerings, particularly within the single-use product category.

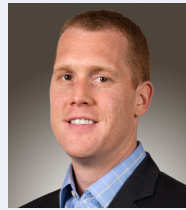
Brand owners should be looking for ways to expand the packaging pie by reassessing strategies based on consumer trends. Does a brand extension make sense? Would adding more green single-use SKUs to the mix be the right move? And packaging converters should consider expanding — but not entirely replacing — current product offerings with new eco-friendly options. While sustainable single-use products and other recycled materials are at a premium right now, increasing competition, particularly from smaller, more innovative players; the advent of new technology; and consumer demand will eventually drive prices down — opening up the market to tremendous growth and investment opportunities.

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