



Executive Insights

Unwrapping the Results of L.E.K.'s 2020 Brand Owner Packaging Study

High competition continues to characterize the consumer packaged goods (CPG) market. For brands, standing out means harnessing a range of marketing strategies, and this includes, critically, increased investment in packaging. The status quo is reflected in L.E.K. Consulting's 2020 Brand Owner Packaging Study figures; following a trend observed in our studies from the past two years, overall packaging spend continues to ramp up across a range of sectors, with nearly 50% of brand owners expected to increase packaging spend in 2020 from 2019.

Our findings reveal that the increase in spend is powered primarily by four sweeping market trends that signal high-growth opportunities — and barriers — for packaging converters and suppliers:

1. The demand for sustainable packaging solutions
2. Increasing stock-keeping unit (SKU) proliferation
3. Use of innovative packaging substrates and packaging formats
4. The imperative of consumer convenience in a fast-paced world

To attain a comprehensive understanding of how packaging decision-maker needs are evolving, L.E.K. Consulting conducted its third annual brand owner packaging study in January 2020. For a closer look at how the global COVID-19 crisis — which emerged after the completion of this study — is impacting packaging in the near term, read our recently published [COVID-19's Impact on Packaging: Near-Term Perspectives](#).

About the study

We surveyed 287 brand managers and other packaging decision-makers at CPG companies. The brands involved run the gamut of industries: food and beverage, healthcare and wellness, pet and household, beauty and personal care, consumer electronics, and industrials. All survey participants are responsible for or are directly involved in making packaging decisions for consumer brands. All brands operate in the U.S. and in some cases internationally.

Packaging spend surges

As in 2019, this year's survey indicates that a significant majority of respondents — some 80% — believe that packaging is important for the success of their overall brand. We asked respondents to rate exactly how significant they considered packaging to be to their brand's growth on a scale of 1 to 7, with 7 being "very important." This year's average score is 5.6 — a slight increase from 2019, when the average was 5.5.

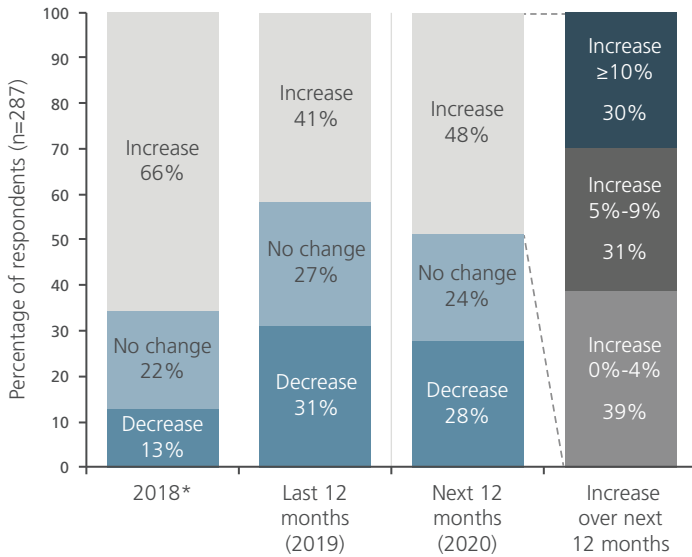
Unwrapping the Results of L.E.K.'s 2020 Brand Owner Packaging Study was written by **Thilo Henkes** and **Jeff Cloetingh**, Managing Directors, and **Amanda Davis Winters**, a Principal, in L.E.K. Consulting's Paper & Packaging practice. Thilo and Jeff are based in Boston, and Amanda is based in New York.

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The L.E.K. logo consists of the letters "L.E.K." in a white, serif font, set against a dark green rectangular background.

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Figure 1
Change in packaging spend, historical and forecasted
(2018, 19, 20F)¹



*From L.E.K. 2019 Packaging Survey
Source: L.E.K. 2020 Packaging Survey

In terms of how this breaks down by brand type, a majority of tier B brands (international brands with \$500 million to \$1 billion in annual revenue) and private label brands believe that packaging is highly significant to success; 66% of respondents from each tier regard packaging as “very important.”

Given the high degree of confidence in the power of packaging, it follows that overall spending is projected to grow. Some 48% of brand owners report that they will boost packaging investment over the next year — an increase from last year, when 41% reported they would do the same (see Figure 1). And among those who have already started to spend more on packaging, nearly one-third plan to increase that amount by more than 10% in 2020.

Our study reveals, however, that it isn’t just standard market competition among brands that is powering the increased spend in packaging. As discussed in the introduction, several notable trends are also having a profound influence.

1. Support for sustainable solutions swells

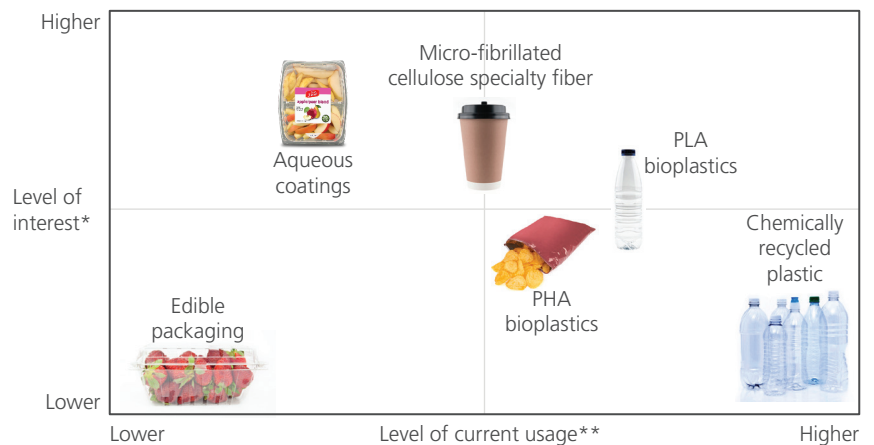
Heightened global awareness of the importance of sustainability is influencing government

regulations and brand owner goals, particularly with regard to packaged goods. Consumers are scouting out environmentally friendly products and packaging in greater numbers — and CPG brands are paying attention. Approximately 23% of respondents indicate that consumer demand for green products and services will be the biggest growth driver for their primary brands over the next two years, up from 20% of respondents who said the same in the past two surveys. The beauty and personal care and pet and household sectors, in particular, are embracing the trend. Some 34% of beauty and personal care brands and 22% of pet and household brands agree that the upsurge in consumer demand for sustainable products and services has been their most significant growth driver over the past two years (since 2018).

Given the groundswell of support for green initiatives, it is not surprising that in the past two years a majority of brands have introduced environmentally friendly products (67%) and packaging (53%) in a bid to appeal to the growing green-conscious consumer base. In terms of materials used, our results reveal that over the past two years, 42% of brands have made the switch to a portion of the packaging being made from recycled substrates. Adoption of biodegradable substrates and lightweight packaging over the same period was also noteworthy: 36% of respondents have embraced some form of biodegradables, while 35% of respondents have made efforts to lightweight (i.e., reduce the amount of material) in their packaging.

And the push for the adoption of innovative sustainable packaging substrates is forecast to continue over the next

Figure 2
Relative level of usage and interest for specialty packaging technologies



*Includes respondents indicating interest level as “7” or “6” on a scale of 1 to 7

**Includes purchases in the past two years

Source: L.E.K. 2020 Packaging Survey

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A closer look at specialty substrates

There are a range of innovative, specialty substrates available for manufacturers looking to develop sustainable packaging options. Examples include:

- **PLA bioplastics:** Biodegradable substitutes for petrochemical-based plastics; often used for plastic bottles.
- **PHA bioplastics:** Biodegradable substitutes for petrochemical-based plastics; often used for single-use food packaging.
- **Micro-fibrillated cellulose specialty fiber:** Renewable and biodegradable material that is developed from fibers that are extracted from plant waste.
- **Chemically recycled plastics:** Advanced recycling that reduces the material to the fundamental building blocks of the original plastic.
- **Aqueous coatings:** Protect products (often food products) from moisture and bacteria; although nonrecyclable, they reduce the use of less sustainable laminated structures.
- **Edible packaging:** Often algae- or protein-based; most commonly used in the food and beverage industry.

two years. Brand owners expect the total value of packaging with biodegradable, recycled or compostable material to grow by 15%-20% over the next two years. In terms of specialty packaging technologies, polyhydroxyalkanoates (PHA) bioplastics, polylactic acid (PLA), bioplastics, micro-fibrillated cellulose specialty fiber and aqueous coatings all had the highest interest from brand owners, compared to other new packaging attributes such as edible packaging (see Figure 2). Indeed, some 45% of brand owners state an interest in adopting chemically recycled plastics in the future. Packaging decision-makers in the food and beverage and pet and household sectors were particularly drawn to chemically recycled plastics, with 52% of each group indicating a high degree of interest.

That doesn't mean, however, that other specialty forms of packaging are failing to garner interest. Brand owners in the pet and household sector report a significantly higher than average interest in aqueous coatings (with a mean score of 5.5), while respondents in food and beverage scored 5.0 for interest in

edible packaging, which likewise is considered significantly higher than average.

2. Soaring number of SKUs shapes packaging demand

Consumers are inundated with choice, and for brands, competing in a crowded marketplace means developing novel offerings that can cut through the noise and captivate customers. That's why our results point to a continued proliferation of SKUs across branded and private label brands as CPG brands ramp up efforts to better target and micro-segment evolving consumer needs. The number of SKUs across brands has increased in the past two years (2017-2019), with a further increase forecast for the next two years; the average number of SKUs for primary brands is projected to be 68 by 2021, which is a marked increase from the average of 49 in 2017 (see Figure 3). Respondents in beauty and personal care, in particular, are embracing new product development, with brands in this end market planning to add the most SKUs over the next five years.

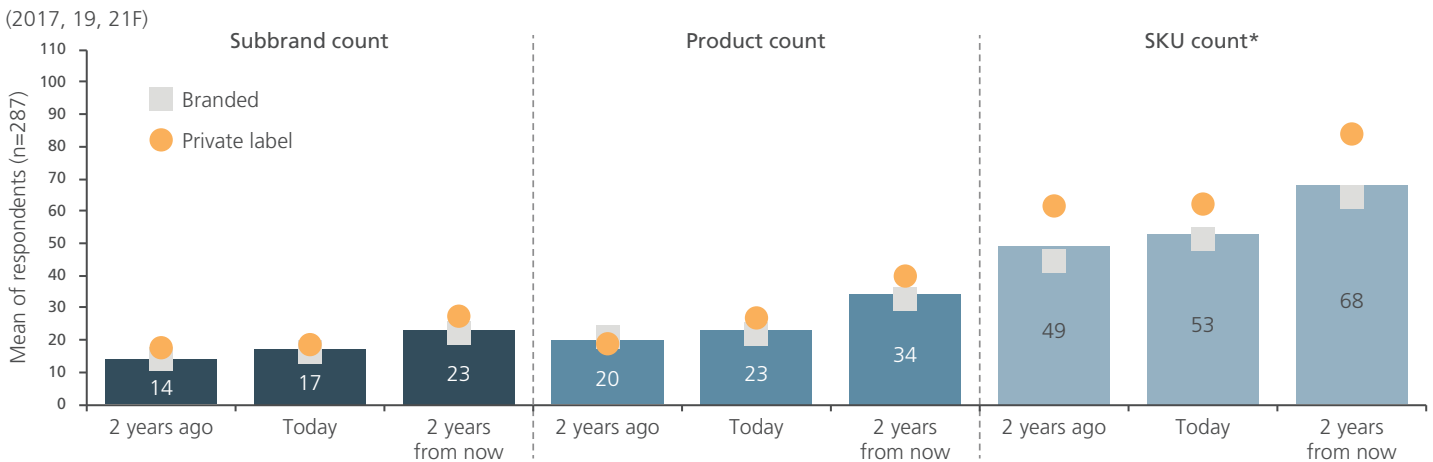
Connected packaging 101

Connected or "smart" packaging is understood as any form of packaging with digital capabilities built in. Here is a closer look at the functionality of the several forms of connected packaging discussed in this study:

- **Physical property sensors:** These technologies include temperature, moisture, oxygen, motion and pressure sensors. These sensors could be used in alerting consumers to the product's quality.
- **GPS receivers:** Ubiquitous technology that enables global tracking of a package, with a standard accuracy of five meters.
- **Radio-frequency identification (RFID):** Technology used to identify and track products through packaging-embedded tags. Two forms of this technology exist: active tags and passive tags. Active tags use battery power to transmit signals to RFID readers, while passive tags collect energy from an RFID reader's radio waves to transmit information.
- **Bluetooth:** Wireless technology that enables exchange of information between devices or between a device and a tag, with ranges from 10 to 100 meters.
- **Near field communication (NFC):** A secure form of data exchange, NFC technology, similar to Bluetooth, is frequently used in smartphones for mobile payments and data transfers.

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Figure 3
Average number of subbrands, products and SKUs²



*Includes year-round and seasonal/promotional SKUs
Source: L.E.K. 2020 Packaging Survey

3. Connected packaging gains traction

The upsurge in the number of SKUs across industries is inspiring some brand owners to take a more innovative view of the packaging they develop. Enter connected or “smart” packaging.

Our study found that brand owner interest in smart packaging technologies is currently high and is expected to increase further (see Figure 4). Interest in packaging with built-in GPS is especially notable, with 57% of brand owners indicating that they have used or intend to use GPS technology in their packaging over the next two years. Adoption of Bluetooth capabilities has a similar level of interest — 56% of brand owners have used or intend to use Bluetooth in the future. Shining a light on consumer-facing industries, 72% of respondents in the consumer electronics industry intend to adopt GPS technology over the next two years, while 69% of respondents in the food and beverage sector expect to use Bluetooth in the future.

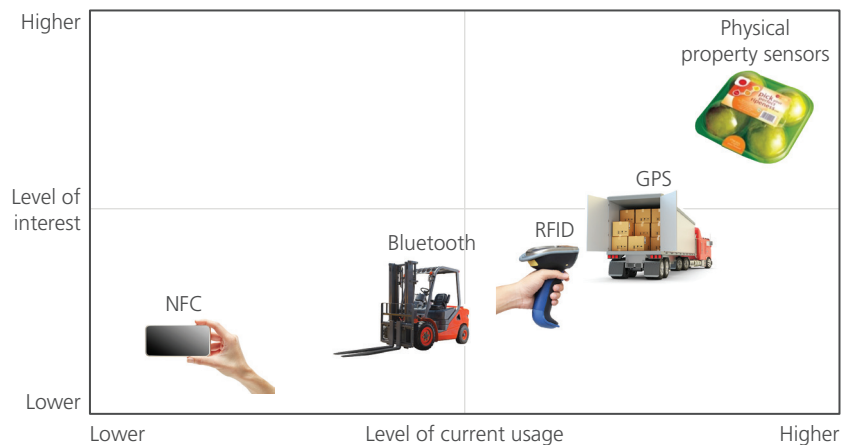
In addition, overall brand owner interest in connected packaging is increasing. Some 64% of brands indicate interest in the future adoption of both Bluetooth and NFC technologies in their packaging. Across end markets, food and beverage indicated the highest interest across all connected packaging technologies, followed by consumer electronics.

4. Convenience is crucial

The desire for speed and convenience is now inextricably embedded in the way consumers

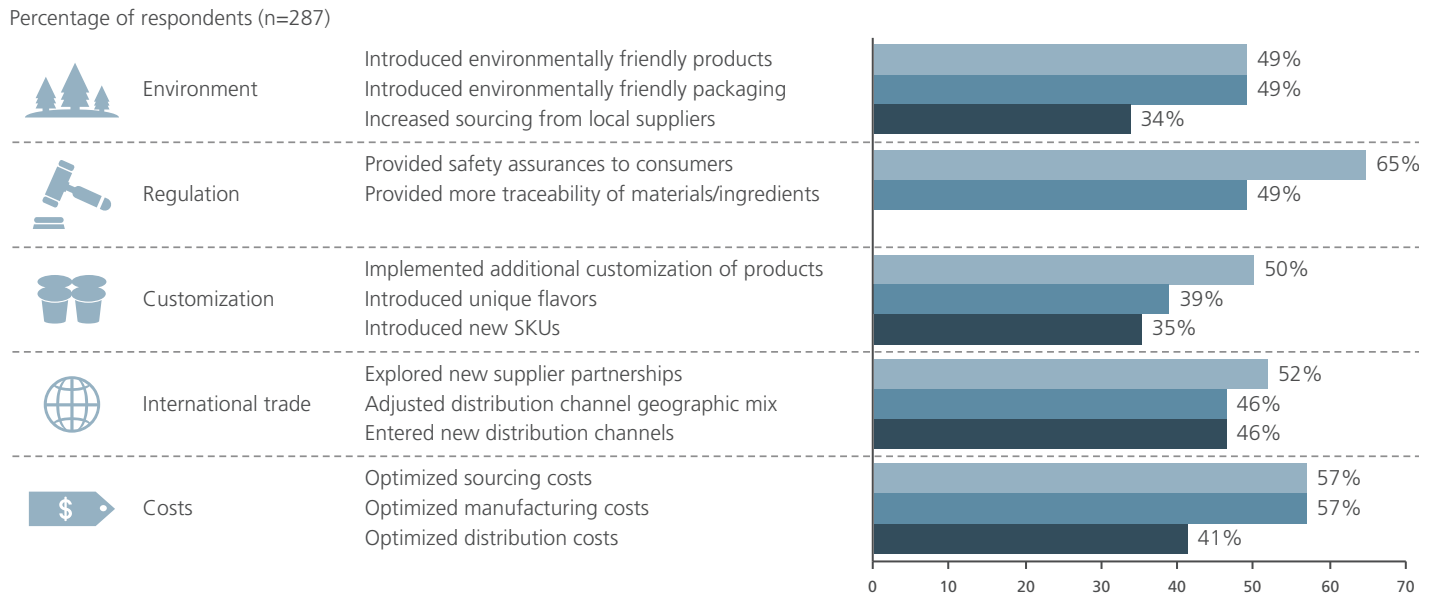
perceive products and services — a trend fueled by the ubiquity of ecommerce and the instant gratification associated with digital platforms such as smartphone applications. It makes sense, therefore, that the demand for convenience, portability and ease of use is still a critical driver of packaging spend for brand owners. Some 27% of brands indicate that consumer preference for more convenient product options has been a top growth driver over the past two years.

Figure 4
Relative level of current usage and interest for connected/smart packaging technologies



Source: L.E.K. 2020 Packaging Survey

Figure 5
Top brand actions taken in response to top growth barriers in last two years³



Source: L.E.K. 2020 Packaging Survey

In response to the convenience trend, many brand owners are reevaluating packaging design and devising novel, more user-friendly options. More than half of respondents (59%) have introduced single-serve packaging sizes over the past two years, with 78% of those respondents indicating that the strategy has affected their primary brand's overall packaging. Furthermore, 40% of brand owners report investment in packaging that is easier to open. And some 39% of respondents have expanded lower-priced offerings as a way of delivering more convenience to their customers.

How brands are responding to market barriers

Despite the ample opportunity for growth thanks to these prevailing market trends, it is also important to note that these same forces can generate challenges that set companies back and potentially curtail expansion. This is especially true when considering the marketwide push for sustainable initiatives. For example, more than a quarter (28%) of beauty and personal care brand respondents regard the need to adjust their product offerings and packaging to meet sustainable consumer demands as a barrier to their growth over the past two years. Healthcare and wellness brands responded similarly, with 23% citing the same. Likely explanations for sustainability as a growth barrier include fears over adapting current product offerings at great expense, pricey package redesigns and the need to find new substrate suppliers.

When it comes to the response to barriers posed by the push for sustainability, close to half of all brands (49%) report introducing environmentally friendly products and packaging over the past two years, with 34% reporting the introduction of materials sourced from local suppliers (see Figure 5).

The future is still promising

The outlook for packaging, much like in 2019, is strong. Investment in packaging continues on an upward trajectory for CPG brands, powered by major industry trends — notably the push for sustainable solutions and a widespread demand for innovation and convenience. The industry trends powering growth opportunities show little sign of letting up, and with companies recognizing the power of packaging to convey distinctive brand messaging in a crowded marketplace, it's safe to assert that packaging spend will likely remain high, especially in the near term.

¹Survey question: 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?

²Survey question: How has the number of total subbrands/different products available/different SKUs from your primary brand evolved over the last two years? How do you expect it to evolve over the next two years?

³Survey question: What have you done to improve your primary brand's positioning in the last two years in reaction to the below barriers to growth?

About the Authors



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About L.E.K. Consulting

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