



How Packaging Companies Can Win by Meeting Changing Consumer Preferences

Strong annual growth that has propelled the specialty food segment since the start of the decade suggests a sustainable, long-term trend rather than a passing fad. L.E.K. Consulting has found that more than 80% of consumers currently purchase at least one type of specialty food product regularly and about two-thirds of these consumers are willing to pay upward of 18% more on average for specialty items than for their mainstream counterparts. This *Executive Insights* examines how changing consumer preferences are presenting new challenges and opportunities for packaging companies that must act swiftly in order to earn outsized rewards.

Categories and retailers

Specialty products bearing labels like “all-natural,” “enhanced” or “alternative” appeal to both committed consumers (those who frequently purchase health and wellness products) and casual shoppers (those who purchase specialty foods from time to time). This rapidly expanding segment reflects consumers’ increased interest in maintaining a healthy lifestyle that includes not only

organic foods but also vitamins, herbs and other supplements. Fast-growing categories within this segment include ethnic entrees and snacks (e.g., Kettle Spicy Thai potato chips, Archer Farms Greek-inspired potato chips); “foods with pieces” (e.g., beverages and soups that contain bits of fruit, bits of vegetable or juice pulp), and “ethical” products made without preservatives, microbe-killing acids or GMOs.

For years, specialty food retailers such as Trader Joe’s and Whole Foods have flourished by offering unique, hard-to-find products, including those sourced from smaller, locally based manufacturers. Thanks to these retailers, brands such as KIND, Annie’s and Chobani have successfully “crossed over” into the grocery mainstream, where products enjoy a broader customer base and, as a result, a steeper growth trajectory. The number of specialty crossovers has risen alongside consumers’ willingness to pay a premium for specialty foods, leading grocers to rebalance their inventories to align with consumer preferences.

Specialty food packaging

Within the grocery channel, retailers seek to extend specialty food products’ shelf life as a means to reduce waste and costs. Accordingly, specialty food manufacturers must deliver products with packaging that not only is visually appealing but also offers shelf stability.

Preservative-free specialty foods’ robust margins make them highly attractive to retailers, but unless properly packaged, these goods

How Packaging Companies Can Win by Meeting Changing Consumer Preferences was written by **Thilo Henkes** and **Peter Walter**, Managing Directors in L.E.K. Consulting’s Packaging practice. **Jeff Cloetingh**, Manager, at L.E.K. Consulting, also contributed to this article. Thilo and Jeff are based in Boston, and Peter is based in New York.

For more information, contact industrials@lek.com.

Executive Insights

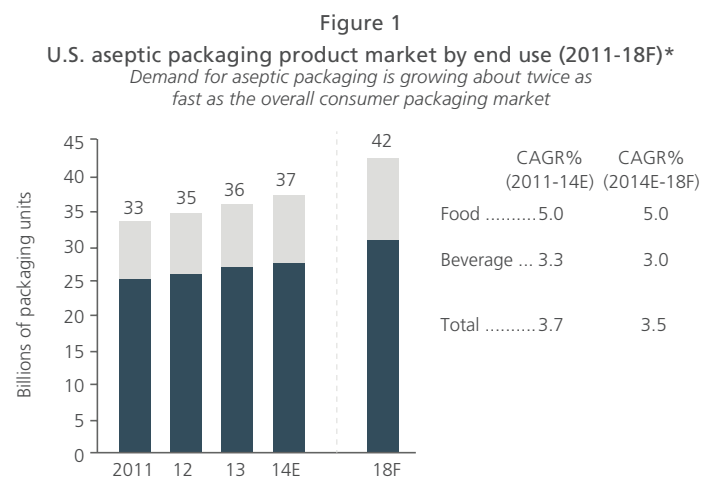
tend to have a significantly shorter shelf life than do mainstream competitors' products. This puts the onus on the consumer packaged goods (CPG) industry to devise newer, more durable containers that enhance both product vitality and customer appeal, thereby providing a clearer path to large-scale value creation in the grocery channel.

New Container Concepts

In recent years, the food industry has seen an uptick in nonconventional packaging methodologies that serve specific purposes.

CAP. To extend shelf life and prevent shoppers from bruising fresh produce, a growing number of retailers now stock fruits and vegetables in controlled atmosphere packaging (CAP). CAP creates the ideal environment within a protective film for storing bananas, broccoli, cherries, romaine lettuce and other produce, and it has the capacity to extend shelf life by as much as 400%. Accordingly, CAP is expected to outperform traditional packaging processes over the near term, growing at an estimated 4% per annum on a volume basis.

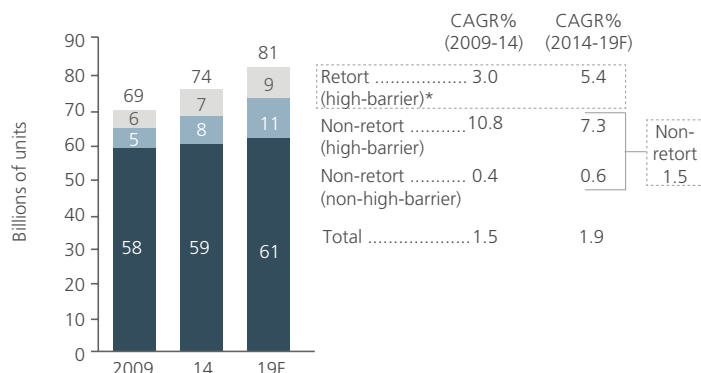
Aseptic packaging. As an alternative to acidification, aseptic packaging extracts oxygen from the container in order to maintain the freshness of items such as organic baby foods, low-acid dairy products (e.g., milk, yogurt) and low-acid nondairy products (e.g., sauces, soups). Packaging converters (manufacturers that turn film or resin into pouches and other containers) are essential to aseptic packaging because they produce durable, multilayered solid or flexible packages that are rugged enough to withstand the filling process. Because aseptic packaging greatly extends shelf life, demand for it is growing rapidly (see Figure 1).



*Excludes pharmaceuticals.

Source: MarketsandMarkets, PCI, Smithers Pira, TechNavio, L.E.K. analysis

Figure 2
U.S. pouch market by type (2009-19F)
Growth in retort pouches is substantially outpacing growth in the overall pouch market



*Most retort pouches are stand-up pouches.

Source: Smithers Pira, Freedonia, L.E.K. interviews and analysis

Retort pouches. These pouches are gaining favor because they protect food from moisture and offer consumers the convenience of heating the product inside the bag itself. Ethnic foods, soups and ready-to-eat meals are among the specialty categories that have benefited from this type of packaging, which is made of high-barrier, multilayered film. Growth in retort pouches is substantially outpacing growth in the overall pouch market (see Figure 2).

Wide-mouth containers. The sustained popularity of foods with pieces and bulk specialty foods has prompted greater demand for wide-mouth containers, which continue to gain market share at the expense of narrow-neck containers that have smaller openings for pouring.

The power of packaging

Specialty food brand owners' abilities to convey freshness and to pique consumer interest through differentiated packaging are key to maintaining their product appeal. This does not necessarily require a large capital investment: According to L.E.K., on average, packaging accounts for a mere 5% of a product's total cost.

In addition to enhancing stability and shelf life, packaging can be used to boost a product's visual appeal. Private-label brands, in particular, emphasize packaging style and appearance, because the relatively low cost of creating durable, eye-catching containers pays off by enabling products to be priced closer to their mainstream brand equivalents.

For instance, some meat and poultry manufacturers package their items in color-matching trays, giving the impression that these products have been recently cut and packaged in the store and are therefore fresher.

Executive Insights

Packaging opportunities ahead

Consumers who have long adhered to a holistic diet aren't the only ones who buy all-natural, organic or other chemical-free specialty foods. More recent converts to a health- and fitness-conscious lifestyle also seek out and purchase these foods. Given consumers' increasing desire to be better informed about what they put in their bodies, demand for innovative health and wellness products is expected to maintain its current trajectory.

This trajectory will require packaging companies to grow to meet specialty food manufacturers' need for durable and distinctive packaging. Brand owners want packaging that not only accentuates premium product features but also improves taste, maintains freshness and extends shelf life. Furthermore, foods with pieces, organic and all-natural foods, and other specialty offerings often perish more quickly than do those that contain preservatives, so they require high-barrier packaging that provides an airtight closure, and some of these packaging types require special filling processes. While relatively low-cost, packaging itself is of extremely high value to the specialty food segment, not only for product differentiation but also for extension of shelf life, particularly in an increasingly fragmented and competitive specialty food environment.

To compete with both channel giants and flash-in-the-pan niche brands, to secure shelf space, and to establish trust with retailers and consumers alike, specialty food companies must differentiate themselves through innovative product packaging. And as long as the specialty food trend continues, packaging companies will have a wealth of opportunity to align their products to meet the segment's needs.

About the Authors



Thilo Henkes joined L.E.K. in 2000 and has more than 15 years of consulting experience specializing in transaction support and developing post-acquisition, value-enhancing strategies for portfolio companies. He is a Managing Director and Partner, and active in our Packaging, Building Materials & Industrial Products and Private Equity practices.



Peter Walter is a Managing Director in L.E.K. Consulting's New York office. Peter has more than 20 years of global consulting experience, with a focus on strategy development and activation, M&A and performance improvement for both corporate and investor clients. He currently leads L.E.K.'s Agribusiness practice in the Americas and supports other sectors, including automotive, packaging and building products.

About L.E.K. Consulting

L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and rigorous analysis to help business leaders achieve practical results with real impact. We are uncompromising in our approach to helping clients consistently make better decisions, deliver improved business performance and create greater shareholder returns. The firm advises and supports global companies that are leaders in their industries — including the largest private and public sector organizations, private equity firms and emerging entrepreneurial businesses. Founded more than 30 years ago, L.E.K. employs more than 1,200 professionals across the Americas, Asia-Pacific and Europe. For more information, go to www.lek.com.