



2015 State Of The Industry:

Paper Goods and Packaging

Executives in the paper goods and packaging market face a number of important strategic questions as they plan for growth given shifting market dynamics. To help navigate the road ahead, L.E.K. Consulting shares its perspectives on the state of the paper goods and packaging market, the trends driving growth and the packaging sectors that are likely to outperform and underperform in 2015.



What is the Current State of the U.S. Paper Goods and Packaging Industry?

The U.S. consumer packaging industry has demonstrated less cyclicity than the broader economy while benefiting from a wide range of consumer and industrial trends. Going forward, we anticipate packaging demand to be driven by factors such as:

- **Product fragmentation.** CPGs are segmenting their customer bases in increasingly granular ways and developing new products that are ever more targeted at specific consumer groups, resulting in greater competition between brands and more demand for new packaging formats to increase differentiation
- **Private label penetration.** Private label penetration is still well below where penetration is, for example, in Europe. While we don't expect similar levels of penetration in the U.S., private label brands are improving their packaging to compete more directly with branded products
- **Promotional activity.** Brands are increasing promotional activity, which shortens the life-cycle of packaging, particularly for elements such as labels
- **Security requirements.** Premium, and even non-premium brands, are seeing increasing activity from knock-off brands, driving demand for packaging that can provide different types of security measures such as holographs
- **Shelf stability.** The supply chain in a number of categories (e.g., food, beverage, personal care, pharmaceutical, etc.) is demanding better shelf stability, which is driving demand for packaging products such as hermetic seals and liners, aseptic packaging and newer hot-fill technologies
- **E-commerce.** Increasing on-line sales are driving demand for secondary packaging, protective packaging and industrial packaging options

While we saw some product de-stocking and slowing product introductions through the recent market cycle, many CPGs and private label brands used the cycle as an opportunity to gain shelf space. As a result, packaging demand showed some resiliency through the cycle and we continue to see strong, underlying growth fundamentals for the years ahead.

With these strong fundamentals as a backdrop, there have also been some mix shifts in the market leading to differential growth rates across packaging segments. For example:

- In the label market, we have seen shrink-fit and in-mold labels taking share from glue-applied and pressure sensitive labels
- In the cap and closure market, injection molded flip-tops have taken share from compression molded twist tops

In some packaging markets, the shifts have been end-market specific. For example:

- In personal care aerosols, we have seen aluminum containers taking share and in baby food we see plastic pouches continuing to take share from glass and plastic.
- In the private label end-market, we have seen brand owners continuing to upgrade their packaging across all packaging segments as private label brands continue to compete directly with branded product in terms of packaging

So while consumer and industrial trends are expected to continue to provide solid wind behind the sails of packaging growth, innovation is also leading to mix shifts in packaging and end-market segments. And that provides opportunities for outsized growth.



What are the Key Challenges and Opportunities?

The packaging industry is experiencing a rate of change and growth not seen before, fueled by consumer and channel trends that are driving innovation in packaging formats and a shorter packaging lifecycle. The challenge facing senior executives in the packaging industry is to identify the next wave of growth opportunity in packaging and ensure that the packaging formats and substrates they choose are positioned to win.

Consumer and channel trends are driving differential growth rates for packaging formats and substrates. For example:

- Consumer trends in e-commerce and consumer demand for convenience and green or natural products are resulting in growth in packaging segments such as protective packaging, flexible pouches with innovative fitments and sustainable packaging
- Channel demand for more shelf-stable products is driving growth in barrier films and aseptic technology
- Mix shifts in packaging product categories are being driven by innovation. For example, peanuts have been replaced by air pillows and in-the-box paper fillin protective packaging, and consumer demand for convenience is driving a shift from rigid glass and plastic packaging in the food and beverage end markets toward flexible plastic pouches with spouts and custom fitments
- Typical recycled plastic packaging content is moving toward degradable packaging formats such as fiber and plant-based substrates

Innovation in packaging offers opportunities to differentiate one's brand and to provide better value to consumers. The improving economy and the trend toward more expensive packaging in some segments (driven by demand for products that have longer shelf life but are still "natural") are providing the wherewithal to support innovative packaging. The challenges associated with increasing competition and fighting for consumers or customers are being met by the packaging industry and turned into opportunities to take shelf space or mind share.



What Burning Issues are Senior Executives Facing?

Despite the rosy outlook for the packaging sector, executives are grappling with a number of issues that affect which packaging substrates and formats are likely to be winners, as well as what it takes to remain competitive in the packaging sector. Some of these issues include:

- **Regulatory trends.** We have seen how the regulatory environment has negatively impacted certain kinds of packaging

substrates (e.g., polystyrene clam-shells or peanuts in protective packaging), but also created opportunities for other types of substrates (e.g., degradable packaging)

- **Shortening product lifecycles.** The increasing rate of new product introductions as well as increasing promotional activity results in faster time to market, which puts pressure on different parts of the packaging value chain but also creates opportunities for differentiation for converters
- **Shortening production runs.** Many end product categories are seeing smaller production runs (e.g., the total demand for shampoo is not keeping up with the rate of new product introductions, resulting in smaller run sizes per brand), putting pressure on manufacturing capabilities, for example. This creates challenges in the packaging value chain, but again creates opportunities for differentiation for converters, fillers, the distribution channel, etc.
- **Shifts in the packaging value chain.** In a few end markets, we are seeing shifts in who is making the packaging. For example, in the dairy market, the consolidation of dairies is also leading to some mega-dairies taking packaging and filling in-house, putting pressure downstream in the value chain
- **Channel changing packaging needs.** In a number of end markets, the channel is influencing the packaging decision making process. For example, the grocery channel is demanding better shelf-stable product, which is driving innovation and format/material shifts in areas such as aseptic packaging

The above issues create pressures but also opportunities in the packaging sector and ultimately help drive innovation and growth throughout the value chain.

The packaging sector has many different segments (e.g., primary versus secondary packaging, consumer versus industrial packaging, flexible versus rigid packaging, caps & closures, labels, protective packaging, etc.), and within each of those segments are product categories that are experiencing mix shifts and therefore provide opportunities for differential growth rates. Identifying these mix shifts is a way to generate growth above and beyond the packaging cycle, which as described above, has solid fundamentals behind it. L.E.K. Consulting has perspectives on where to find supra-market growth and would welcome the opportunity to discuss our thoughts with you.

Our Paper Goods and Packaging Practice

L.E.K. Consulting is a leading advisor to the packaging sector, with hundreds of projects completed around the world. We understand the packaging market across the entire value chain, from raw material suppliers to brand owners.

Meet Our Leaders



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