

Spotlight on Premium Paper and Packaging

L.E.K. Consulting's Packaging practice continually monitors industry trends and identifies attractive opportunities for private equity and corporate investors.

In the current U.S. market environment, increased demand for high-end paper and packaging products is expected to lead the way forward for leading firms within the premium paper and paperboard segment of the industry. A number of key trends will likely sustain the growth and profitability of premium paper and packaging providers over the near term, thereby opening the door to potentially attractive investment opportunities. These trends include:

- Mass channels increasing their exposure to luxury items such as watches and personal-care products, thereby driving premium packaging needs
- Brand owners seeking innovative concepts to support product differentiation, as well as security/authenticity packaging solutions due to sustained "knock-off" product competition from Asia
- An uptick in demand for high-performance paper products within education, religion, trade publications and other core-printing segments

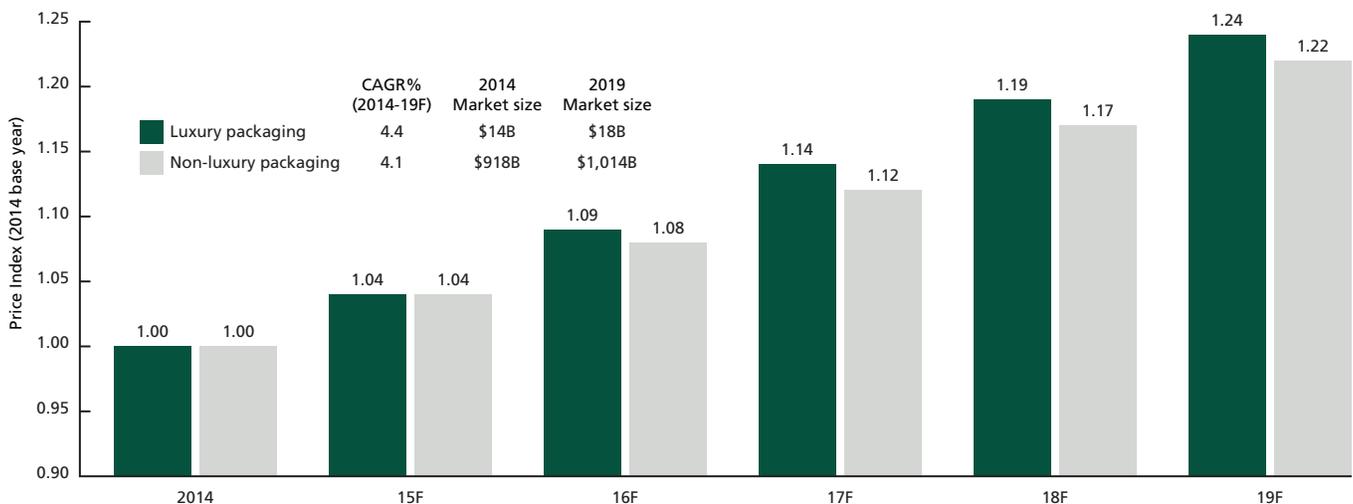
Premium Paper Packaging Beneficiaries

As luxury brands and retailers continue to experience solid growth, discount retailers are riding their coattails with an increased focus on luxury items. For example, Costco and Sam's Club are offering high-end goods, such as Prada and Fendi handbags, Cartier watches and gourmet foods. These trends are leading to increased spending on premium packaging as brands seek to set themselves apart from the competition. And with lower-cost, copycat products on the rise, brand holders are increasingly using holographs and other secure packaging measures embedded in the paper/board for secondary packaging to authenticate their product.

In addition, greater emphasis on design and innovation is expected to help premium paper providers buck the trend toward product digitization. Sales of premium fashion diaries and personal journals appealing to Millennials are expected to lead the date and diary segments over the next several years. Similarly, demand is expected to grow for scrapbooks and personalized photo albums using high-quality color ink, and textured paper stock is expected to show volume and value growth.

Global Packaging Spend: Luxury vs. Non-Luxury

Premium brands are increasingly using high-end packaging to differentiate themselves.



Sources: Smithers Pira, L.E.K. analysis
Note: Index, 2014 base year

Luxury Brands Are Driving the Demand for Premium Paper Packaging

Premium brands differentiate with packaging

Traditional/previous packaging



Recent/new packaging



New premium brands enter the market

Traditional product packaging



New premium brands packaging



Source: Company websites, L.E.K. analysis

Benefits to PE Investors

Premium paper and paperboard companies that focus on short- to medium-run lengths are likely to outperform longer-run, more commoditized paper suppliers. A continuation of the current favorable market conditions, fueled by ongoing demand for specialized products and services, could generate outsized returns for those properly invested in the premium paper segment in the years ahead.

Contact

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