

Paper Based Packaging



**Emerging Retail
Developments
Mean Big Changes Ahead
in Paperboard Packaging
Industry**

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Retailers Will Drive Change

One of the most overused axioms in business today is probably the one that says that change is the only constant. But there is no doubt that the idea applies to paperboard packaging where suppliers in recent years have faced significant changes in all areas of the business including customer needs, process technologies, materials, cost and price dynamics, and industry / customer consolidation to name a few.

Within this segment, one part of the business that is sometimes easy to overlook relates to the channels of distribution – and more specifically, the retailers who merchandise packaged products to the ultimate consumer. It is easy to understand why because historically the primary focus for paperboard producers and converters has been on the packaged goods companies who actually buy, design, and incorporate the packaging into the final product. But the dynamics involved in this process began shifting somewhat in recent years as mega retailers in the warehouse club and supercenter channels began placing new requirements on packaging materials.

The good news is that this increased focus by retailers has been a positive development for packaging suppliers since it has encouraged the growth and development of new value added products such as graphic corrugated, multi-packs, display unit shippers, and promotional packs to name a few. The successful commercialization of these new products has helped fuel the growth of emerging new channels and, as a result, retailers have now become a much bigger factor in the paperboard packaging supply chain.

Three Major Retail Developments

While the rise of warehouse clubs has had a major impact on paperboard packaging to date, I believe that the impact of this development will pale against the impact that emerging retail channel developments will have on the paperboard packaging industry over the next several years. I would like to focus on just three of these developments in this article and talk about how these will impact your paperboard packaging business

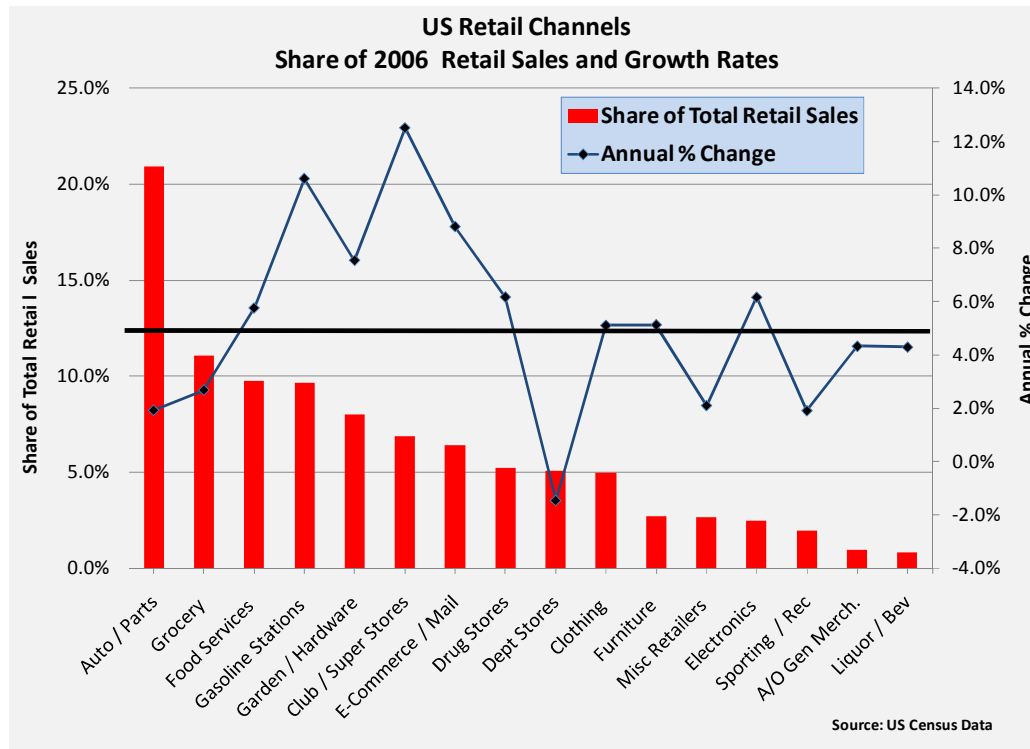
Retail Channel Fragmentation

As the US population continues to mature and marketers fight to gain a bigger piece of the consumer dollar, retailers will increasingly focus on better serving specific consumer segments. We can see this today in the form of a growing number of new products, promotional offerings targeted at specific consumer groups, and the array of new retail venues that have appeared such as online retailers, new club stores and formats, supercenters, fresh / organic foods, new “category killers”, and specialty retailers to name a few.

This continuing fragmentation will require packaging suppliers to develop new package formats that better meet the specific needs of targeted consumers. The concurrent development of new enabling technologies such as variable printing, more user-friendly designs, environmentally friendly raw materials, new printing techniques, and higher performing materials will facilitate these marketing efforts and directly respond to this fragmentation trend.

The large and more innovative retail companies will be at the center of the resulting packaging developments. In addition to more unique packaging and product formats, retailers will demand more tailored merchandising support (special display shippers, personalized programs, private label brands, special / on pack promotional programs, and higher impact graphics) to help differentiate their offerings and give the consumer a reason to shop in their stores.

To ensure their success and drive their own business growth, packaged goods companies will need to develop the capabilities, through their suppliers, to respond to these changing retail needs. Only the most responsive and capable packaging suppliers will be able to meet these needs and participate in these growth opportunities.



Sustainability Programs

The focus on sustainability and environmental packaging will probably be the most significant dynamic driving retail change into the foreseeable future. Obviously, Wal-Mart has seized upon this issue to fuel its next growth phase and other retailers have been and will continue to follow suit. Following are some of the specific developments to expect:

- The Wal-Mart scorecard will exist in different forms with most major retailers employing similar models to evaluate suppliers and their products. Obtaining a high score on these dimensions will become a competitive necessity as consumers become more aware of the environmental benefits of competing products and retailers (See sidebar)
- Product cost will still be an important consideration for retailers and packaged goods companies but there will be a distinct shift in emphasis toward products that offer value-added solutions that attract consumers. An example is Wal-Mart's decision to use biopolymers for fresh produce, despite the higher cost.
- The growing visibility of sustainable manufacturing practices and materials will drive significant

changes among suppliers and require published documentation. Environmental claims will have to be supported and verified- in many cases by third parties.

- The methods for measuring sustainability and environmental impact will become more developed and sophisticated. Retailers will seek to make claims relative to the standards they place on product manufacturers and the packaging that is used. Certain suppliers or packaging forms that clearly offer environmental benefits may even be specified or required by retailers.
- The tendency to over - package products to ensure a low level of product damage and returns will be less tolerated as the total supply chain costs of these practices become more evident due to the increased retailer focus in this area. To minimize product damages, retailers will force companies to move toward more efficient supply systems that allow for the reduction of packaging waste. Possible requirements to facilitate this may include local sourcing, lower inventory levels, RFID tracking, and new pallet load designs.

Packaging Cost Reductions

An increasing number of retailers are now making claims and promises in their marketing campaigns to reduce packaging costs of the products they sell. If packaged goods companies want access to their customers, they will need to demonstrate and identify where these savings have been realized. Some of the major potential sources of paperboard packaging cost reductions include the following:

- The sustainability initiatives discussed above will drive cost reductions since both initiatives will be focusing on source reduction, lower consumption of fuels and resources, and more efficient manufacturing processes
- RFID will enable suppliers to track and trace the history of every product flowing through the distribution channel resulting in the need for lower system inventory levels and will pinpoint bottlenecks and losses in the system for corrective actions
- Retailer requirements for source and material verification will force improvements in documentation and information systems within paperboard packaging companies. This will allow producers and intermediaries to optimize their own processes and reduce material and processing costs
- Products that use less material and energy resources or create less carbon will reduce total system costs and be preferred by retailers. An example is the trend for retailers to maximize the use of local products. Another example is the replacement of standard liquid detergents with concentrated versions. Historically, this was not viable due to the unwillingness of manufacturers to lose retail shelf space. Today, due to retailer demands, this shift is happening very quickly with tremendous environmental and cost savings. More packaging changes like this are sure to take place in the years ahead driven by retailer demands.
- Food recalls have become a growing cost of doing business and one that retailers are trying to reduce. These costs can be significantly reduced if the affected products can be identified sooner and more accurately through paperboard packaging innovations that include RFID, expanded product labeling, and increased documentation relating to the production of every item and packaging material going through distribution channels.
- Product theft can be a huge expense for some retailers and there is great interest on the development of new packaging materials, security features, and tracing technologies to reduce these costs. This need will be a major source of category innovation in the future.

Implications for Paperboard Packaging Suppliers

The implications of these three retailer-led developments will be tremendous for paperboard packaging suppliers in the years ahead. While some of the implications are apparent or already under way, others

are not obvious and have yet to take effect. To be prepared to take advantage of these emerging developments, the following actions are in order:

1. Be ready to respond to an even more fragmented customer base with more SKU's, shorter run lengths, and quicker changeover requirements. Also, be prepared for more complicated product development and design processes as major retailers get more involved in these areas.
2. Clearly understand and document your material usage and processes. It will be necessary to know the source of all materials used and resources consumed from beginning to end for the materials you produce. This includes both your own products as well as those of your suppliers.
3. Assess your position relative to competitors on key environmental and cost dimensions so that you can be sure that you are at least competitive in these areas. This analysis will also open up the potential for process and cost improvements that you otherwise may not uncover.
4. Review the capabilities of your key suppliers and what new technologies are under development. Make sure your suppliers are on the leading edge of those technologies that will have the greatest business impact such as RFID, variable printing, high performance fibers, and substrate additives to name a few.
5. Meet with your retail and packaged goods customers on a regular basis to identify source reduction and process improvement ideas that will reduce costs and material usage. Make sure to challenge long held assumptions such as basis weight / strength requirements, fiber sources, substrate selections, printing methods, product protection needs, distribution methods, and product handling procedures.
6. Consider dramatic changes in your business model. Do you have the right type of capabilities to be competitive in this emerging new environment? Should you consider a different type of converting line or production capability to make a different kind of product? Do you have the right technical skills and capabilities to help your customers meet the design and technical challenges that lie ahead?

The challenges ahead for paperboard packaging suppliers will be significant in the years ahead as this new retailer – driven initiatives get trickled down through the supply chain. But for companies that are prepared to act, these challenges can provide the basis for tremendous new sources of profitable growth and development. Similarly, for those companies that do not see it coming or cannot respond quickly or effectively enough, it will be a very difficult time indeed.

Yes, change **will be** the only constant in the years ahead!

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