ICD research

Packaging

Panel Report

Sustainability in the Global Packaging Industry 2011–2012:

Market Trends and Opportunities, Profitability and Budget Forecasts, Packaging Industry Procurement and Marketing Initiatives

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1 Introduction

1.1 What is this report about?

This report is the result of an extensive survey drawn from ICD Research's exclusive panel of leading packaging industry companies. As sustainability emerges as a strong theme in the present business environment, this report provides the reader with a definitive analysis of what sustainability means to the packaging industry and how it is being implemented. Furthermore, this report grants access to the opinions and strategies of business decision makers and competitors and examines their actions surrounding sustainable procurement practices and marketing green initiatives. Additionally, the report provides access to information categorized by region, company type and company turnover.

The report also examines:

- **Sustainability implementation:** understands the sustainability implementation levels across the industry, and its impact on profitability
- **Market-specific growth opportunities:** identifies top growth regions so companies can allocate their marketing activities and budgets effectively
- **Leading business concerns:** identifies leading concerns in the implementation of sustainability practices and subsequent efforts to negate them
- **Procurement expenditure trends:** forecasts the possible change in spend and identifies the sustainable products and services that could attract investment
- **Factors for supplier selection:** understands critical factors influencing supplier selection
- **Green marketing initiatives:** categorizes key marketing methods and channels for effective promotion

1.2 Definitions

- **Packaged goods manufacturers:** These are manufacturers of fast moving consumer goods (FMCGs) such as food and beverages, pharmaceutical products and household products.
- **Packaging converters:** These act as both buyers and suppliers since they buy packaging material from suppliers to supply finished packaging products to packaged goods manufacturers. Converters are considered as buyers throughout the report.
- **Packaging suppliers:** These consist of industry suppliers, service providers, industry observers, and a small number of non-supplier industry observers such as trade bodies or government organizations.
- **Green packaging solutions:** These include sustainable packaging solutions, that are considered eco-friendly, recyclable and originates from renewable sources.
- **Biodegradability:** This implies that a material such as packaging material can be broken down into natural compounds through aerobic (composting) and anaerobic (landfill) processes. Biodegradability allows the compostable materials to be converted into CO2 under the action of micro organisms.
- **PET, rPET and HDPE:** These are plastic resins for making bottles, trays and containers for packing consumer packaged goods (CPG), polyethylene terephthalate (PET), recycled polyethylene terephthalate (rPTE), and high density polyethylene (HDPE).

- **Shrink-wrap:** Is the process of applying a heat-shrinkable plastic wrap that covers all surface areas of a product or products.
- **Green packaging solutions:** These include sustainable packaging solutions, that are considered eco-friendly, recyclable and originates from renewable sources.
- **Greenhouse gasses (GHG):** These are gasses in the atmosphere that absorbs and reflects thermal infra-red radiation. These gasses mainly include carbon dioxide, nitrous oxide, methane, ozone and water vapor.
- **Company turnover:** Companies with turnover of less than US$100 million are identified in the report as small companies. Companies with turnover between US$100 million–US$1 billion are referred to as medium-sized companies and those with turnover of more than US$1 billion as large companies.

2 Executive Summary

Most important sustainability initiatives within the packaging industry

The most important sustainability initiatives, as perceived by packaged goods manufacturer respondents, are 'driving waste and inefficiency out of the supply chain', 'waste management' and 'weight reduction', as expressed by 74%, 59% and 59% of respective respondents. The top three sustainability initiatives for packaging converters include 'innovation in packaging design', 'driving waste and inefficiency out of the supply chain' and 'waste management'. Many converters are keen to invest in 'innovation in packaging design' and 'waste management' techniques in order to increase operational efficiency. In August 2011, ITC Paperboards and Specialty Paper Division (PSPD), unveiled advanced paper and paperboard laminates to be used for manufacturing flexible packaging materials, folding cartons and disposables under the, Omegawrap, Omegabarr and Omegabev brand names.

The top three business functions for packaged goods manufacturers with the resources to implement the maximum level of sustainability initiatives are 'production process', 'process management' and 'research and development'. Packaged goods manufacturers have made significant investments in 'process management' to integrate sustainability into their business practices. In June 2011, MSA, a safety equipment manufacturer, introduced Espresso polarized safety glasses clamshell PET packaging which contains 8% less plastic and one third less cardstock insert material than standard models of eyewear. Packaging converters cite 'research and development', 'production process' and 'marketing process' as having the highest level of implementation.

'Cost-savings and operational efficiency', 'strengthening competitive position' and 'compliance with legislation' remain the key drivers for buyers

The key drivers of sustainability by buyer type differ slightly, the top three drivers for packaged goods manufacturers include 'cost-savings and operational efficiency', 'strengthening competitive position' and 'compliance with legislation', as voiced by 91%, 76% and 68% of respective respondents. Driven by growing cost pressures and a reduction in profit margins, many packaged goods manufacturers are focused on improving their business processes, such as developing efficient supply chain operations, automating processes and developing innovative packaging solutions. The key drivers of sustainability as identified by packaging converters and suppliers are 'cost-savings and operational efficiency', 'client demand' and 'strengthening competitive position'. Many supplier companies are making significant process adjustments to support their green credentials and are becoming increasingly client responsive. Highlighting the trend, a senior level executive from a supplier company based in North America says: *"We are becoming increasingly customer driven as most of our packaging buyers are expressing a preference for suppliers who are strengthening their green credentials."*

'High cost of implementation', 'geographical spread of supply chain' and 'low demand due to high cost' remains the key barriers to implementing sustainability practices for packaged goods manufacturers

The key barriers to sustainability differ significantly depending on buyer type. For packaged goods manufacturers, the main barriers include the ‘high cost of implementation’, ‘geographical spread of supply chain’ and ‘low demand due to high cost’, as expressed by 53%, 50% and 41% of respective respondents. In line with the concern of ‘low demand due to high cost’, a senior level executive from a packaged goods manufacturer company operating in the Asia-Pacific region states: *“Clients demand high quality across all packaging formats, including green sustainable packaging designs, yet they do not want to pay extra for environmentally friendly solutions.”*

Germany, the UK and the USA are projected to be the key growth markets for buyers

Germany, the UK and the US are the fastest growing markets for packaging. Increasingly, packaged goods manufactures consider the UK, Germany and France as potential growth markets, as identified by 67%, 67% and 61% of respective respondents. The overall market for packaging is expected to grow significantly due to economic recovery, changing lifestyle demographics and business growth. Additionally, stringent environmental legislations are forcing packaging companies to use environmentally-friendly materials and adopt sustainable practices that utilize low-energy consumption, eco-friendly packaging design and invest in recycling processes. In May 2011, Danone’s German division introduced a new bioplastic packaging for its Activia yogurt that is made from plants and not hydrocarbons.

Most important organizational prerequisites for packaging industry

‘Support from top management’, ‘monitoring, measurement, analysis and evaluation’ and ‘need for cost-effective and efficient supply-chain / logistics solutions’ are considered the leading organizational prerequisites for packaged goods manufacturers during 2011–2012. Support from top management is considered an important prerequisite for the implementation of sustainability practices in an organization. For example, strong support from the top management in Wal-Mart stores has enabled the retailer to consider more environmentally friendly packaging options. The retailer has also introduced a packaging scorecard program to force suppliers to follow sustainability initiatives.

For packaging converters, the leading organizational prerequisites are ‘focus on long-term goal achievement’, ‘technical expertise’ and ‘support from top management’. For packaged goods manufacturers, the top three implemented measures include ‘reduced energy usage’, ‘weight reduction and design changes’ and ‘remote conferencing and telecommunications’, while that of packaging converters are, ‘weight reduction and design changes’, ‘reduced energy usage’, and ‘consolidating the sourcing process’. Packaging companies attempt to realize ‘reduced energy usage’ in their business processes. For example, Hormel foods reduced its water consumption by 30 million gallons by adopting sustainability across all business functions.

Average annual procurement budget of buyers is expected to increase

ICD Research’s Industry Survey revealed that, overall, packaging goods manufacturers’ sustainability management budgets are expected to rise over the next 12 months by 8%, while that of packaging converters’ is expected to increase by 7%. An ever expanding need to adopt sustainability practices, comply with legislation and meet client demand, coupled with the growing interest of internal management in sustainability issues are considered important reasons for the growth of sustainability budgets. A C-level executive from a packaging converter company operating in Europe states: *"We have completed consumer research that shows sustainability as an area of interest, and as result we plan to implement sustainability initiatives in our business processes."*

On average, packaged goods manufacturers and packaging converters expect their cost-savings targets to measure approximately 7%. In total, 70% and 55% of respective respondents from packaged goods manufacturers and packaging converters expect to implement cost-saving targets of less than 10%. Packaging companies are realizing ways to reduce costs, such as tying-up with local suppliers and entering into partnerships to collaborate on technology and develop innovative solutions. In July 2011, DISC, a packaging solution provider, signed an agreement with Applied DNA Sciences to introduce DNA security technology to the packaging market.

Packaged goods manufacturer respondents plan to increase expenditure on 'recycled corrugated board', 'flexible packaging' and 'shrink-wrap packaging' solutions

Packaged goods manufacturer respondents expect to increase their expenditure on 'recycled corrugated board', 'flexible packaging' and 'shrink-wrap packaging' solutions, while packaging converters plan to invest on 'flexible packaging', 'biodegradable plastics' and 'recycled corrugated board'. Demand for recycled corrugated board is expected to rise due to the development of new application areas. A strong demand for flexible barrier packaging comprising ethylene vinyl alcohol (EVOH), pure alcohol (PA) and biaxially-oriented polyester (BOPET) from retain chains will additionally add to growth. Exemplifying the trend of consolidation in the flexible packaging industry, Turkish company, Polinas acquired Nuroll, a producer of BOPET, from M&G Group in Jul 2011.

The most important factors regarding supplier selection for packaged goods manufacturers are 'effective health and safety (EHS) management system', 'effective minimization of waste' and 'reduction of energy consumption', Vetter, a pharmaceutical packaging company, obtained EHS certification, BS OHSAS 18001, for its integrated management system. The certification is in recognition of the company's processes in production, laboratory management, work safety and waste management activities.

'Competitive advantage', 'customer satisfaction' and 'efficiency and cost-effectiveness' to dominate future investment

Maintaining 'competitive advantage', 'customer satisfaction' and 'efficiency and cost-effectiveness', are considered to be important for packaging suppliers to market green credentials to their existing or perspective clients. In an attempt to gain a 'competitive advantage' companies are tying-up with one other to launch technologically advanced products or extend their service offerings and market coverage. In August 2011, Pearson Packaging Systems, a manufacturer of secondary packaging equipment, signed an exclusive co-marketing agreement with CT Pack to supply CT Pack's Vortex Systems multi-packing equipment in North America.

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES