



# Position Paper Market Trends and Developments



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# ■ Market Trends and Developments<sup>1</sup>

## Introduction

The global packaging industry turnover is around \$500 billion, with packaging container sales accounting for the major part and packaging machinery sales estimated around \$25 billion. Used in a wide range of industries across food and drink, healthcare, cosmetics and other consumer goods as well as a range of industrial sectors, packaging has become an essential everyday item, with its usage growing broadly in line with the global economy. Packaging growth is typically higher than GDP in emerging markets, where increases in standard of living are typically used to buy packaged food, beverages and other everyday commodities. In mature markets, packaging growth is typically in line with (or sometimes even below) GDP, as increases in standard of living are often used to consume services with limited physical packaging content, e.g. travel and tourism. There are, however, packaging opportunities to outpace GDP also in mature markets, as packaging can be used as a mean to create services like convenience, tracing etc.

Packaging has accompanied mankind throughout history from the early days when primitive humans lived as nomadic hunters/ gatherers. These early humans would have been subject to geographical migration of animals and seasonal availability of plants. This nomadic lifestyle would typically not encourage property accumulation beyond what could be carried on one's back. Nonetheless, these people also needed containment and carrying devices. Early packages in these days were typically wraps of leaves, animal skins, shells of nuts or hollow wood pieces. Packaging has developed tremendously since those days, reflecting human society development via domestication of plants and animals to farming followed by industrialisation and later information and knowledge society (to make a very simplified overview of World history). Throughout these stages different style packaging has always been around, to support contemporary lifestyles,

The need for packaging has been "long-lasting/ sustainable", but the designs, materials, styles and functions have evolved and developed tremendously over the years. Also new growth segments, such as active and smart packaging, often have long roots in history. A wooden cask is an early example of active packaging for wine with beneficial effects on quality in the maturity and aging process for wine. Nowadays, wooden barrels have passed maturity stage in its packaging concept life cycle, and are in a declining phase, being replaced by cost and resource leaner solutions for many applications.

Today market demands are getting stronger for packaging development supporting a sustainable society. Packaging must perform well in all three dimensions of sustainability, i.e. people (social), profit (economy) and planet (environment). A good package should be cost-efficient and provide value to generate revenue, it should have a good user interface (handleability, information etc) and should be lean on resources, recoverable and prevent its contents from being spoilt. Innovation, knowledge generation and transfer are key elements to realise this and WPO – World Packaging Organisation tries to contribute through e.g. the WorldStar (Student) Award Scheme, within the framework of its mission: "Better Quality of Life through Better Packaging to More People".

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<sup>1</sup> partly based on the report "The future of global packaging", published jointly by Pira International and WPO in 2005

The health of the packaging industry is strongly linked to that of the world economy as a whole. However, reliant upon upstream industries for their raw materials, packaging converters have to cope with fluctuations in raw material prices, dependent upon levels of supply and demand. In a climate of low overall inflation, rising prices for raw materials have put something of a squeeze on converters. Downward pressure on prices is being exerted by brand owners and retailers alike – exacerbated by moves towards consolidation at all levels of the supply chain. In addition, moves towards central purchasing by packaging buyers have also impacted upon packaging margins.

To summarize, also in limited growth, mature markets in western Europe, Japan and North America, there remain opportunities for growth driven by more functional and convenient packaging, as well as general growth across a range of consumer goods areas. At the same time, rapid growth in packaging usage in the fast-growing economies of Asia, Middle East, Latin America and also eastern Europe has presented new opportunities for packaging suppliers.

## ■ Key Drivers and Trends

The progression of packaging demand is influenced by a wide range of factors, from year to year and also factors with a much longer-term influence. While the economy plays a central role in influencing the size and growth of the market, there are a number of other factors which can be seen as having a direct or at least indirect influence on packaging demand or, at any rate, the nature of this demand, irrespective of the performance of the economy. These include:

- The ageing of the world population
- The trend towards smaller households
- The increasing requirement for convenience among consumers
- Rising health awareness among consumers
- The trend towards 'on-the-go' lifestyles among increasingly time-poor consumers
- Growing requirements for brand enhancement/ differentiation in an increasingly competitive environment
- New packaging material development
- The move towards smaller pack sizes as the incidence of families eating together at the dinner table become less common
- Increasing awareness of environmental issues, and the adoption of new regulatory requirements on packaging recycling
- Climate change combat and carbon footprint
- Consolidation and globalisation of retailers
- E-commerce

## Economic trends

The economy is the single most important influence on packaging consumption. The level of economic activity has a fairly direct influence on demand for bulk/ transport packaging in particular, and indirectly provides the right or wrong climate for investment into packaging material research and development.

In recent years, the progression of the world economy has been strong but also unevenly distributed, with rising oil and raw material prices and strong growth particularly in emerging markets. In the US, the economy is slowing down (lead by declining property prices) and the resulting financial turmoil may slow down the World economic development in the years ahead.

## Demographic trends

Much is said about the potential of China's one billion consumers, but demographic factors often have a much more complex effect on demand trends. In the packaging market, a great deal of attention has been devoted to ensuring that the offer responds to the demands of particular demographic segments, and takes into account the ageing of the world's population that is now occurring.

The population of the world currently stands at 6.47 billion, up from 4.07 billion people in 1975, and set to grow to around 9.08 billion by 2050 taking the average of UN forecasts. By the same measure, the population of Africa will more than double to 1.94 billion, while that of Asia will grow by around one third to 5.2 billion. The population of Europe, meanwhile, is forecast to decline, from 728 million to 653 million, with the population of the world's more developed regions set to rise only slightly, from 1.21 billion to 1.24 billion.

China is currently the world's most populous nation with a population of 1.32 billion, ahead of India at 1.1 billion and the USA at 298 million. India is set to overtake China by 2050, when its population will have risen to 1.59 billion versus China's 1.39 billion.

## Older populations

The nature of population growth in the world today is causing governments a great deal of concern. Populations are ageing, and this is leading to fears of what will happen when the boomer generation retires, potentially using its political clout to demand better pensions, healthcare and general social provision – to the extent that may create a too great drain on the economy.

The ageing of the world's population is being caused by two factors: on the one hand, fertility decline or falling birth rate; and also increasing life expectancy due to advances in healthcare. In 1950, around 8% of the world's population was aged 60 years or over, since which time that figure has risen to 10% and is expected to reach 22% by 2050. The number of children aged 0-14, by contrast, is expected to remain pretty much static, rising from 1.82 billion in 2005 to 1.83 billion by 2050, with the share of under 15s falling from 28% to 20%.

## Lifestyle issues

Lifestyle trends that are today impacting upon consumer purchasing decisions are important. For the packaging industry, many of these trends are positive, encouraging innovation and expansion of e.g. chilled cabinet selections in supermarkets. Consumers are becoming increasingly demanding and short of time, seeking out convenience food solutions that represent an advance on more traditional processed foods. The expectations of food quality are rising and growing awareness of health and other issues present new challenges to retailers, packers and packaging suppliers alike.

### Smaller households and smaller pack sizes

Social change is indirectly leading to modifications in packaging design. The average size of households is declining in line with the rising number of single-parent households and single-person households, and as a result there have been moves towards smaller pack sizes. This trend is being reinforced by the decline in the family meal, as more and more women enter into the workplace. As working hours become less standard, opportunities for the family to eat together are becoming fewer.

### Convenience

Rising sales of convenience foods and developments in convenience food packaging have been a major feature of packaging markets in recent times. Packaging technology has developed to the extent that the ready-meal offer has improved significantly, attracting a broader and also wealthier customer base than was previously possible, as consumers are prepared to pay a premium for quality, pre-prepared meals.

### Health awareness

Consumer health concerns are an increasing influence in many end-use markets for packaging. Examples include:

- Rising sales of bottled water, fruit juice and milk drink markets in many countries, to the detriment of spirits and, in some countries, carbonated soft drinks;
- Increasing demand for packaged fresh food products.

### 'On-the-go' lifestyles

'On-the-go' lifestyles have emerged as a result of several factors. Longer working hours, longer commuting times, and a wider range of leisure activities have all contributed to the notion of "time-poor" consumers. In addition, consumers are less inclined to spend what valuable time they have preparing food. The main consequence of this has been an increased incidence of snacking during the day and rising out-of-home consumption as well as a greater reliance on ready-prepared foods in the evening.

## Brand issues

### Brand enhancement/ differentiation

Packaging is a major aspect of differentiation in most consumable goods; where differentiation competition is intense and packaging can provide a marketing advantage at the point of sale. Packaging is also a major cost component in the majority of consumable products. Taking an "extreme" example, 48 cents out of every dollar (48%) of Coke's product cost is from packaging. Of the total market, 60% lies in the areas of

primary containers and flexible packaging – the containers and wrappers that give immediate protection to the packaged product.

The power of the global brands continues to increase strongly. Where markets are dominated by a small number of companies, the success or otherwise of a new packaging product can often be assured by its adoption by just one major global brand. Aside from quickly generating a high level of demand in its own right, this also tends to bring with it copycat switches by minor brands.

## Retail trends

The retail industry is increasing in power and diversity. Hypermarkets are usually sited outside the city centre, while discounters can be found everywhere and speciality stores are usually in the larger cities. Convenience stores continue to make headway and grow strongly, located in airports, train station and city centres.

In emerging markets, super and hypermarkets are expanding rapidly, boosting overall consumption and also taking market share from the traditional local (open) market, where most of the produce is not individually packed. Various issues will affect future retail trends, including consolidation, technology, service, quality and trust, lifestyle and emotions.

On-line retailing, with goods, either being delivered through the post or via retailers own fleets of delivery vans, is expanding strongly. Today, items delivered are often "overpacked" in packs that are not specifically designed for the purpose. In the future, packaging development tailored to the needs of on-line retailing will be necessary.

## New packaging material developments

Enabling new market developments, high-performance packaging has been developed with strong barrier characteristics, and also in certain instances active and intelligent components as well. These may adapt to changes in pack contents and environment and extend shelf life; or provide information on the pack and its contents to promote supply chain efficiencies.

Key areas under consideration include:

- High barrier materials
- Active packaging
- Intelligent packaging
- Nanotechnology
- Digital print for packaging.

## Climate change and environmental issues

Environmental concerns have led to governments throughout the World taking steps to deal with the issue of packaging waste and recycling. Packaging directives from the European Commission, for example, have led to the imposition of challenging targets for recycling, and national governments are also examining new ways to discourage packaging waste. Landfill is a major political issue, with landfill taxes and ban on landfill of organic material being introduced by governments – in some cases before the necessary infrastructure is in place to provide alternatives to disposal.

In the light of climate change and environmental concerns, major retailers and brand owners have started to put pressure on suppliers, demanding carbon footprints and sustainable business practices. Also Consumers have begun to desire all things natural, unaffected by 'unnatural' processes, hence the suspicion of GM foods, etc. The packaging industry has taken steps to address the environmental question, but this has been more of a function of cooperation with government rather than a broader perspective. A broad collaboration throughout the value chain will be required in the future to address sustainability, avoiding sub-optimisation.

## Downgauging and lightweighting

One effect of constant pressure on industry to reduce resource use and cost together with environmental legislation, has been to encourage the packaging industry to reduce the amount of packaging used, by lightweighting of materials, with examples across metal, glass, plastic and paper and board packaging. This has been made possible through the development of new technologies aimed at the strengthening of materials through new formulations and processes, factors which have also influenced other packaging materials areas.

The use of lighter corrugated containerboard is a significant trend in world paper and board packaging markets, particularly in developed countries. In Europe, there have been significant increases in the use of containerboards of 100 gsm or less, facilitated by recent new capacity for lighter materials. In North America and other parts of the world, however, the trend towards lighter weights has been somewhat slower, but is now catching up.

## ■ Conclusions

There are a number of market developments with major implications for the packaging industry. Designs have to improve continuously to meet the changing market and sustainability needs. Emerging markets, with a growing middle class, adopting a consumption life style, implies business opportunities. New lean, functional and convenient packaging, are paths to follow, both in mature and emerging markets.

Fluctuating raw material prices in combination with pressure for price reductions from consolidated brand owners and retailers is a challenge for the industry. Demands are changing as retailers globalise and increase penetration in emerging markets. Also packaging suitable for e-business is a future demand together with active and smart packaging.

To address these challenges, knowledge, training and innovation are essential. WPO are committed to make a contribution here continuing our mission to improve quality of life through better packaging to more people. Tools in this context are WorldStar (Student) Award, training programmes, workshops, seminars etc.