

Retail Driven Change: How and Why Retailers Influence Packaging Decisions

A Flexible Packaging Association Report

Prepared for FPA by:
Strategic Analysis Inc. and
Packaging & Technology Integrated Solutions



Flexible Packaging Association

971 Corporate Blvd., Suite 403
Linthicum, MD 21090
410-694-0800
410-694-0900 fax
www.flexpack.org

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EXECUTIVE SUMMARY

The challenge for retailers today is growing their business after a decade of cost cutting and consolidation. The Flexible Packaging Association commissioned this market research report that examines drivers and dynamics in the retail marketplace and their impact on packaging decisions. Packaging is no longer just about cost. Rather, packaging is a key enabler and driver for the retailer. Successful retailers are looking for value-added packaging solutions that do not compromise performance.

- Flexible packaging is currently a strong and positive aid to retailers. Based on key growth markets across the retail channel, retailers will utilize more and more flexible packaging to provide better shelf impact, as well as improved consumer and product performance.

The significant shifts in the retail environment, particularly in new store formats, have important implications for FPA members and their businesses. Retailers have come a long way in recognizing the power of packaging. The relationship between consumers, retailers, consumer packaged goods companies (CPGs), and packaging manufacturers remains dynamic.

- The retailer has become the ultimate product marketer at the expense of the national brand owner's position. Now, 80% of consumer purchase decisions are made in the store.¹ Packaging is more important than ever, as more and more retailers understand the significance of shelf impact in selling products from the aisle.

Consumer lifestyle demands, individual preferences, demographics, and the desire for new products are major drivers that influence what consumers expect and will ultimately purchase. Particularly significant, lifestyle trends of health and wellness, convenience, and sustainability have driven impressive growth to fresh and organic retail channels, smaller, more convenient formats, and big changes in retailer thinking about packaging. The Wal-Mart decision to use biopolymers for fresh produce, despite the higher cost, surprised many. But this mass merchandiser is also trying to attract the more affluent consumers who are headed for Costco and Target by increasing their range of offerings, including more upscale and organic products.

- Retailers have continued to increase their level of influence on packaging decisions. It's not just about cost – it's about finding value-added solutions that attract consumers.

Due to their size and purchasing power, mass merchandisers and club stores have more influence than traditional grocery and drug stores when it comes to package development. But new ways that reflect collaboration rather than strict cost reduction are working. In April 2006, Wal-Mart

¹ *Six Seconds to Woo Consumers with Innovation*, Donna Berry, March 24, 2005, Dairy Business View, *Ingredient Technology*

hosted a Packaging Fair in Bentonville, Arkansas, inviting 45 leading packaging suppliers from across the industry. The packaging companies were invited to meet with over 400 product vendors and begin individual discussions for ideas to consider changes to their packaging. Wal-Mart is helping to facilitate connections between packaging and product vendors that will lead to packaging that is more sustainable without compromising performance. Wal-Mart is not demanding immediate change from suppliers; they are asking them to consider possibilities that lead to a lighter environmental footprint. The message is to step outside current thinking and consider change in materials, formats, technology, or supply chain that can lead to better packaging solutions and present them for discussion in Bentonville.

- A growing number of retailers understand and control Private Label Packaging –nearly one out of every four products purchased from a U.S. retail channel - mass merchandiser, drug chain, or supermarket - is a Private Label product, controlled by a retailer.²

In some product categories the Private Label market share exceeds 50%. While many Private Label products are in mature markets, retailers are adding premium product tiers, as well as creating new categories - particularly in fresh foods. Retailers and their design agencies manage package development and innovation here, as the CPG's are in direct competition for sales and shelf space with the same retailers.

- Retailers exert a growing influence on packaging that is increasing the complexity of CPG supply chain and packaging operations.

In order to remain fresh in the eyes of both consumers and retailers, CPG's work with packaging manufacturers for the development of innovative packaging. Retailers request and require changes in package offerings, and CPG's are approached regularly for new ideas. The CPG's marketing/procurement group and consumer packaging team typically get involved in developing new initiatives, supported by design agencies. These teams generally understand what packaging options are available to them, but work collaboratively with packaging manufacturers for innovations in packaging technology.

Packaging manufacturers provide the R&D and investment for packaging innovation as well as influence end-user consumption and retailer's operational efficiency through packaging designs. With long-term investments in new materials, resins, manufacturing technology, and packaging systems for the end user, many suppliers have strong marketing groups that work interactively within the industry. Long-term relationships have fostered innovations through cooperative effort leading to packaging innovations that improve shelf life, functionality, convenience, shelf appearance - a whole range of possible features and benefits.

² 2005 Private Label Share by Channel, *IRI CPG Year in Review*.