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# viewpoint

Retail packaging: 2016 and beyond



Retail is experiencing one of its most dynamic and exciting periods in a long time. Consumers are placing ever-higher demands on retailers and brand owners, expecting a wider and more attractive assortment at better prices and an even more pleasurable and convenient shopping experience—all with a limited impact on the environment. Retailers are responding with dedicated discount formats, online retailing, and a wider and more potent private-label offering. Brand owners, once the masters of the retail universe, are increasingly under pressure to innovate and promote their brand, to earn their place on the retail shelf and maximize profitability. Retailers and brand owners are both also focusing more on making the whole supply chain environmentally sustainable.

The dynamics of the retail arena are having significant consequences for packaging. Strong cost pressure leads to innovative packaging solutions to reduce a product's total lifecycle cost. Retailers are forced to think in new ways about the role of packaging and how it can be used to achieve new things, increasing its performance and blurring the lines between packaging, store furnishing, and marketing communication. And the environmental effect of packaging

material is increasingly being considered, with fiber-based materials standing out because of their recyclability and renewability.

As the significance and role of packaging grow, retailers will have to give it more attention. The ones that can best understand and execute on the full potential of packaging solutions will be best placed to win in the marketplace of today and tomorrow.

This viewpoint focuses on the key packaging themes and success factors for grocery retailers, in 2016 and beyond.

## Retail packaging considerations

The purpose of retail packaging is expanding. From the original purposes of containment and protection, retailers and brand owners began to see the significant potential for packaging as a platform for communicating with



all, if packaging can lift sales by just one percent, it has a much larger impact on the bottom line than any cost optimization can deliver. Second, a retailer tends to consider indirect costs of packaging handling. For example, shelf-ready packaging can reduce replenishment costs with 1 to 2 percentage points of sales—a significant number considering most retailers earn low single-digit margins. Sustainability aspects are usually considered at the same time as they relate to some indirect cost such as disposal and recycling. The sticker price of the packaging is generally not one of the most important considerations for buyers.

## Key themes in retail packaging

Several developments in retail and retail packaging are affecting the role and purpose of grocery retail packaging:

**The success of discount retailers.** There is an increase in discount retail across most European geographies.

**Increased private-label penetration.** Private label is becoming more popular and sophisticated, more squarely competing with traditional brands.

**Intelligence in packaging solutions.** As costs are continuously coming down, various intelligent packaging applications are seeing emerging success in the market.

**The shift of retail to online channels.** A growing share of purchases is moving online.

**A greater focus on sustainability.** The environmental sustainability trend is affecting what consumers expect when it comes to retail products and packaging.

These are the five key themes for grocery retail packaging in 2016 and beyond.

consumers. Today, it is used to get attention, communicate brand and product characteristics, highlight promotions and more. It is estimated that as much as 70 percent of all purchase decisions at mass merchandisers are made at the point of sale. As the fight for limited shelf space intensifies, using packaging to its full potential will become even more important. In addition, as we will see in a customer case, the right packaging can reduce costs along the entire supply chain by decreasing waste and making handling more efficient while at the same time being recyclable and renewable.

A retailer faces a number of key considerations when selecting packaging: sales effect, price, indirect handling cost, and sustainability aspects. The sales effect is determined by its ability to attract attention and convey value to a customer. Price is the direct cost of the packaging. Handling costs are all the indirect costs that packaging can influence along its path from production to store. Sustainability aspects involve impacts from the entire supply chain from raw material to recycling or disposal.

In general, one of the most important aspects for a buyer of packaging is its expected effect on sales. After



The success of discount retailers



Increased private-label penetration



Intelligence in packaging solutions



The shift of retail to online channels



A greater focus on sustainability

## The success of discount retailers

Discount grocery retail has become a major success story across most of Europe. In Germany, in many ways the leading country with major discounters such as Aldi and Lidl, discount grocery accounts for 38 percent of total grocery retail sales. In other geographies, such as the Nordics, discount is gaining retail share from a fairly low starting point. Discount has become more popular because of its ability to offer both private-label and similar-quality branded products at attractive prices. Consumers' greater sensitivity to price—a result of the latest economic downturn—has also helped discount retailers succeed.

With its continuous focus on cost, discount has become one of the greatest adopters of innovative packaging. Perhaps the most important example is shelf-ready packaging, which can reduce replenishment costs by up to 50 percent compared to traditional shelf placement. A more extreme version is pallets, which can reduce costs by up to 70 percent. However, consumers generally perceive this type of presentation as less attractive.

Discounters are also trying to reduce the direct cost of packaging by using less material. For instance, brand owners Mondelez and Procter & Gamble are pushing bundled packaging, where related products such as toothpaste and toothbrushes are sold in the same packaging. Another way to decrease packaging material is through the increased use of light-weighting. Light weight corrugated board can retain rigidity while reducing weight, material, and thereby cost.

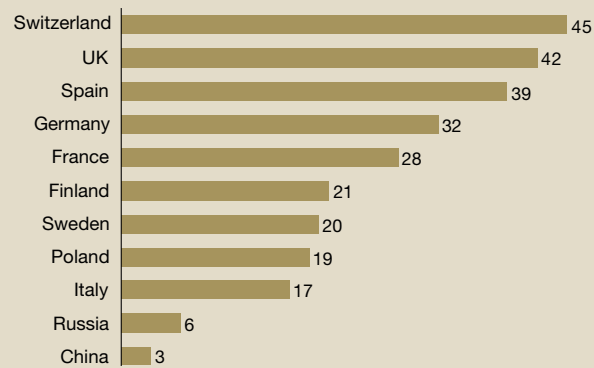
As cost pressure increases, retailers and brand owners will need to strike the right balance between cost minimization and quality and visual appeal. For instance, lower cost modern light-weight materials and micro-fluted corrugated board, can be combined with high-quality attractive printing. In the future, a key challenge for discounters will be to make these cost-efficient solutions even more attractive in the eyes of consumers.

## Increased private-label penetration

As can be seen in the chart below, private-label penetration is already high in Western Europe, led by Switzerland, UK, and Spain, while it is growing from a low base in Eastern Europe.

Private-label penetration is led by Western Europe

Private-label sales penetration by country (%)

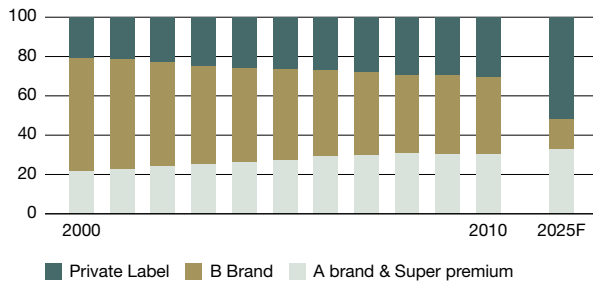


The success of private label affects all stakeholders in the retail value chain. Consumers are enjoying lower prices and wider offerings. Brand owners are facing tougher negotiations and the resulting downward margin pressure. As can be seen in the next chart, private label is expected to continue to grow, reaching more than 50 percent share in 2025. A-brands, the leading brands in their category, will be able to use their brand strengths and ability to innovate to stay relevant, whereas B-brands, the following brands in their category, are expected to continue to struggle for market share and profit. Introduction of premium private label is retailers response to address the consumer segment with growing demand for super premium – the high-end A-brands – while e.g. price fighter private labels are introduced to attract the consumer segment typically buying B-brands. Reflets de France (premium), Carrefour Discount (price fighter) and Carrefour Bio (ecology) are good examples of private label brands addressing more consumer segments.



## Private label is expected to gain further share

European grocery sales by type of brand (%)



The fact that private label is increasingly competing with—and resembling—branded goods is changing the role of private-label packaging. Originally, the main concerns were minimizing costs and communicating low price. However, as private label for most intents and purposes becomes like any other brand, their packaging is becoming like any other brand packaging. This means more attractive and, to some extent, more expensive packaging. A striking example is the change in the private-label packaging of Coop Sweden, a grocery retailer. When introduced, the packaging was very simple with blue and white print, and it carried just the name of the product, such as “coffee.” Nowadays, Coop Sweden’s packaging is advanced, colorful, and attractive, just like the packaging of its A-brand competitors.

## “Retailers are effectively becoming brand owners themselves”

Retailers are effectively becoming brand owners themselves, and this means they are becoming more involved in packaging in general, especially in countries with high private-label penetration. Packaging is seen as every bit as important as the characteristics of the products themselves, and some retailers even employ in-house competence in packaging development and design. Also, some retailers are involved in packaging sourcing, typically bundling packaging volumes for several low-volume private-label suppliers. For countries with low private-label penetration, brand owners are still doing most of the innovation, with retailers following.

The increasing similarities between private labels and brands have pressured brand owners to further differentiate themselves in stores. One such example is the sophisticated corrugated board constructions used as point-of-sales display solutions. Typically, brand owners push these as a way to catch consumers’ attention and communicate brand. For instance, Lindt, the Swiss chocolate producer, is known for its colorful and attractive display solutions in corrugated board or cardboard, especially around holidays. Also, some brand owners, such as Coca-Cola, employ visual merchandisers that visit stores to ensure their products are presented in an attractive way. As private label continues to take share, brands will have to out-innovate to stay ahead.

## Intelligence in packaging solutions

Packaging is becoming intelligent. Applications can now take corrugated packaging from its traditional passive role of containment and protection to more active and intelligent roles using surface treatments, tracking technologies, and advanced sensors and indicators.

Surface coatings can be applied to corrugated packaging to improve its performance in a variety of ways. Some can prolong the shelf life of fresh food products, for example absorbing unwanted oxygen and ethylene. MeadWestvaco estimates that using active coatings to remove ethylene could extend shelf life by 10 percent and also help reduce waste.

Radio-frequency identification (RFID) has potential to greatly improve the use cases for packaging. Small tags are applied as labels to corrugated packaging, directly to the packaging or to logistics units, such as trolleys. The tags enable identification throughout the supply chain, allowing for several applications. For instance, RFID can be used to improve control and efficiency in logistics, deter theft, and allow for automated pricing and denial of recalled items at checkout.

Numerous types of sensors are being developed for commercial use, such as time-temperature indicators (TTI) that indicate how long a package was exposed to undesirable temperatures and spoilage sensors that indicate unwanted oxygen intrusion. Using these, retailers can know more about how the product has been handled and determine its remaining shelf life. For instance, they can use TTIs on pallets to know whether the cold chain has been broken for sensitive products.

These developments are promising to transform the way packaging is used. Some, such as RFID tags, are beginning to see broader use, especially in leading markets such as the United States. However, many are still in development or are too costly to move beyond niche applications. Many also require improvements in large-scale attachment to packaging and read efficiency to become broad successes. However, as costs continue to come down, technology improves, and packaging suppliers



become better at communicating the value, retailers should be prepared for an intelligent future in packaging.

## The shift of retail to online channels

Online is a trend in both grocery and non-grocery retail. For grocery, most European countries still have an online share of at most a few percent. However, in the United Kingdom, the European leader in online grocery retail, it is estimated that 20 percent of total grocery sales will take place online in 10 years' time. Amazon, the world's largest online retailer, has recently taken its first steps into grocery retail with Amazon Fresh, offering free same-day delivery in selected regions in the United States. For non-grocery retail, development has come further, promoted by large multinational players such as Amazon and European fashion retailer Zalando.

As more business is migrating to the online channel, packaging is being transformed. So far, we see most innovation taking place in the non-grocery segment. As the channel has matured, more consumers are expecting to be compensated for the retail experience they lose by going online. Online retailers are therefore experimenting with how they can make their brown boxes more attractive. For example, European online fashion retailer Mr. Porter is using boxes made of high-quality materials with attractive printing on the outside and personal notes to customers on the inside.

The inability to try products before purchase has led to as much as 30 to 40 percent of items purchased online being returned. Therefore, packaging needs to be easy to open and reseal for convenient returns and reduced waste. Amazon has already developed corrugated board packaging that works like a big envelope, making it ideal for returns.

Today, many online retailers and postal services are pushing their own variations of packaging. Going forward, we expect standards to be developed in cooperation with packaging suppliers. This will in turn enable efficiency gains in online shipping and handling for retailers as well as postal services.

## A greater focus on sustainability

Environmental sustainability is a macro trend that is affecting the entire retail arena in most countries. In grocery retail, the recent success of ecology private label and the general demand for sustainable products and local food are results of significantly increased awareness and requirements among consumers. This awareness is strongest in some Western countries, such as in the Nordics, while it is generally lagging in some Eastern European countries, such as Russia.

Retailers and brand owners are acknowledging sustainability in packaging as a major focus area. In DuPont's global survey of more than 500 packaging professionals, sustainability was named the toughest challenge in packaging. Some are pushing recyclability, renewability, reusability, and other aspects of sustainability because of corporate sustainability goals, in part driven by customer requirements, whereas others are doing it primarily for cost reasons.

More companies are aiming to simultaneously optimize the economic, social, and environmental aspects of the business. When doing this, they are increasingly taking the full life-cycle view of packaging, from selecting raw materials to production, distribution, reuse, and disposal. For instance, a leading Polish discount retailer, cooperates with Stora Enso to recycle packaging waste. Used packaging is taken from stores into Stora Enso's collection network, then turned into paper and later new packaging, ensuring full traceability. Also, Procter & Gamble has a vision of using 100 percent renewable or recycled material in all packaging. However, for most companies, achieving full transparency of the entire supply chain is a significant challenge.

Many retailers and brand owners are seeing the benefits of corrugated board packaging when it comes to environmental aspects such as recyclability, renewability, reusability, and energy efficiency. Also, they are focusing on trying to decrease the use of packaging by minimizing secondary packaging and using lighter materials. For example, SanLucar, a supplier of fruits and vegetables, is replacing its plastic packaging with 100 percent compostable recycled cardboard and is launching packaging that is up to 15 percent lighter than its predecessor.

While the trend toward sustainability originally came from consumers, retailers and brand owners are starting to see its branding benefits. They understand the role the packaging material plays in the perception of their sustainability effort. In addition, legislation is further fueling the sustainability trend. The European Union packaging and packaging waste directive obligates member states to meet targets for recovering and recycling packaging waste material. This is then enforced by governments and local authorities by legislation and other means. In parallel with legislation, industry organizations such as the Consumer Goods Forum are providing guidelines for the use of packaging in global retail and consumer goods industries.

# Success factors and challenges

All of the dynamics of modern grocery retail and packaging, combined with fierce competition for consumers and shelf space, makes for some serious challenges for retailers and brand owners. On one hand, there is a need to identify and grasp the significant value-adding opportunities that the retail packaging of the future brings, including improved functionality, accessibility, and logistics efficiency. On the other hand, this must be weighed against complexity, cost, and environmental effects.

For in-depth discussions about packaging success factors for brand owners, see previous Stora Enso viewpoints on food and electronics packaging.



# HeviStrong® improved efficiency in the fruit and vegetable supply chain

Stora Enso helped a leading Finnish retailer reduce waste and increase efficiency along the entire fruit and vegetable supply chain through the development and deployment of HeviStrong® packaging solutions

A leading Finnish retailer was experiencing significant waste in its supply chain for fruits and vegetables. This was partly the result of poor packaging—being either too weak or unable to stack properly because of the lack of standardized dimensions. In addition, the retailer had plans to build a fully automated warehouse that would require a high degree of packaging standardization and modularity to be efficient. Addressing the problem was challenging because of the many stakeholders involved and affected: farmers, logistics partners, and packaging suppliers.

Stora Enso worked closely with the retailer and its logistics provider to develop a packaging solution that addressed these problems. The result was HeviStrong,

a range of strong and stackable trays with standardized base dimensions made using Heinola SC fluting. A tray was developed to fit farmers' Stora Enso automated packaging lines, which would enable them to spend more time harvesting and less time packing.

HeviStrong is an example of retail packaging collaboration at its best, delivering many benefits:

- Reduced waste and related costs for handling claims
- Increased logistics and warehousing efficiency
- Decreased packing time as a result of automation
- Decreased shelf replenishment time thanks to a shelf-ready solution
- Better-quality fruits and vegetables for consumers



Waste-related cost



Logistics efficiency

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# Executive summary

Retailers within grocery have five key themes to consider in retail packaging in 2016 and beyond:

- The success of discount retailers
- Increased private-label penetration
- Intelligence in packaging solutions
- The shift of retail to online channels
- A greater focus on sustainability

Discount grocery retail is a major success across most of Europe. As a result of their continuous focus on cost, discounters are some of the leading adopters of innovative packaging. Examples include shelf-ready packaging, pallet presentation, bundled packaging, and use of lighter materials. In the future, a key challenge for discounters will be to make these cost-efficient solutions more attractive in the eyes of consumers.

Private-label penetration is increasing across Europe, but currently has large variations between countries. Originally used as a lever in negotiations, private label is now adding functions to the assortment and supporting the retail brand. Overall, the difference between private-label and brand packaging is getting smaller. Retailers are also more involved in developing and sourcing packaging. In response to these developments, brand owners are accelerating their differentiation efforts, for example with complex, eye-catching corrugated board constructions at the point of sale.

There is an emerging trend toward more intelligent retail packaging. Surface treatments, such as ethylene absorbents, improve packaging performance. RFID technology promises to make logistics more efficient and reduce thefts. Also, sensors and indicators can measure and provide information on everything from temperature exposure to oxygen intrusion. Although these technologies are promising, mainstream success will require continued cost reduction.

A growing share of retail is moving online, although from low levels. Because many online orders are returned, packaging needs to be easy to open and reseal. In addition, retailers are focusing more on how packaging can elevate the overall product experience. Going forward, we expect retailers to converge on online packaging standards to increase efficiency.

Sustainability is now a key consideration in retail and retail packaging. Consumers are more aware and demanding, and retailers and brand owners are emphasizing material choice and weight reduction. They are also increasingly taking a life-cycle view on sustainability, in part fuelled by an increase in legislation and industry guidelines.

Given these major developments, retailers and brand owners are faced with significant opportunities and challenges when it comes to grocery retail packaging. On one hand, they must identify and grasp the opportunities packaging offers. On the other hand, this must be balanced with the increase in complexity, cost, and environmental impact. We believe partnering with Stora Enso is a key step to manage the challenges and succeed in the ever-competitive retail arena. Stora Enso delivers value in several ways:

- Proactively suggesting innovative packaging solutions to build brand value, support sales, and optimize performance to reduce total cost
- Supporting customers to achieve their profitability and sustainability targets by enabling less weight, less waste, less unused space, and less impact on the environment
- Helping customers make their supply chains more sustainable by using renewable raw materials and Stora Enso's recycling organizations to take care of their recycling needs