The concept of packaging dates back to our earliest history, when people used leather pouches and stoneware to store and protect food. Since then, packaging has evolved significantly and plays a central part in our daily lives.

Its role goes far beyond the simple functional uses of containment, transportation and protection of goods. It has become a marketing tool and a means to connect with consumers, enhance brands and add value through convenience.
Unwrapping the packaging industry

In this article, we consider the key trends shaping the consumer packaging industry and explain how companies are adopting innovative solutions in order to stay relevant and competitive.

**Market dynamics**

Packaging is a diverse corporate sector with multiple consumer and industrial end-uses. The consumer market accounts for 60% of packaging produced, while industrial applications make up the balance. The pie chart below shows that the industry is largely exposed to staple goods, making it relatively immune to economic cycles.

The industry is estimated to generate US$839 billion in revenues globally and has grown at an average rate of 2.4% a year over the past five years. This is expected to accelerate to 3.5% a year over the next five years. The dynamics shaping industry growth differ in emerging versus developed markets. Emerging market growth is fuelled by new consumers and increasing consumption demand, while growth in mature consumer markets is driven by lifestyle and demographic changes.

As trends towards urbanisation and rising incomes create new consumers and enhance buying power, emerging markets should experience sustained demand for packaged goods. There is a positive correlation between average income per person (GDP per capita) and packaging consumption. As a result, emerging markets still lag developed markets in the volume of packaging consumed, with significantly higher relative growth in packaging demand achieved as these economies formalise (as shown in the graphic on the opposite page).

In developed markets, growth is currently shaped by shifting lifestyle trends. The rise of online retail, for example, is stimulating the need for board packaging used to box and protect goods for delivery. A further example is the demographic shift in favour of smaller and single households which has resulted in increased demand for smaller pack sizes and single portion packs, creating more packaging per unit of product consumed.

**Innovating and adapting**

To add maximum value and differentiate offerings, packaging companies collaborate closely with fast moving consumer goods (FMCG) companies. They look for ways to extend product shelf-life, improve transport efficiencies, limit environmental impact and use improved technologies to create solutions for specific demands. An example of this problem-solving innovation is the development of the press down and twist childproof lids used for various pharmaceutical products.
When dealing with their large, multinational FMCG company customers, packaging companies have had to focus on innovative products to ensure their profitability. These customers have significant bargaining power and exert downward pressure on prices for higher volume, but are willing to pay for interesting and unique designs that attract attention and offer cost and logistics benefits.

Four important trends that are currently reshaping the market and driving innovation are convenience, sustainability, material substitution and an emphasis on brand-building.

Convenience
On-the-go consumer lifestyles have fuelled demand for convenience packaging that is easy to use and saves time, such as the squeezy plastic tomato sauce bottle and the pull-open tab on tinned goods. Consumers want resealable, microwaveable, portable and even self-heating packaging formats.

Sustainability
Given the potential for waste accumulation as a side-effect of the industry, there is increased focus on improving recyclability through design and material use, without compromising on quality. Of the roughly 3.5 million tonnes of packaging consumed in South Africa, 57% was collected for recycling in 2015, a trend that is set to improve. For example, last year 52% of bottles made locally from polyethylene terephthalate (PET) were recycled. This is a significant improvement from just 16% in 2005 and is targeted to increase to 70% by 2022. South African-listed plastics and paper packaging producer, Mpact, has recently invested in a PET recycling plant, which will use recycled PET material to manufacture new PET bottles. In addition to generating good returns on capital, this R350 million project will mean that 29 000 tonnes of plastic bottles will be diverted from landfills every year.

Another sustainability-oriented trend is ‘lightweighting’, with packaging being redesigned to reduce weight and material inputs. This generates savings across the supply chain and has environmental benefits due to the lower material use and reduced CO2 emissions from decreased transport weight. The average weight of a 330ml steel beverage can has dropped by 60% over the last 40 years, from 50g to 20g, and the trend is similar for everything from wine bottles to yoghurt tubs. In South Africa, Nampak has converted its tinplate can lines to aluminium, in line with global trends. Aluminium cans weigh 60% less than tinplate cans, are recyclable and chill more efficiently than comparable materials.
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Material substitution
Over the last decade, plastic use has grown rapidly, stealing market share from metal and glass due to its versatility, light weight and ease of transport. This shift is evident on store shelves, where products such as peanut butter and mayonnaise are now packaged in plastic jars and more stand-up plastic pouches used for products such as soup. Its durability and malleability makes plastic easy to adapt to specific designs and requirements. Paper packaging and biodegradable plastics are expected to grow their market share in the future due to their environmentally friendly characteristics.

Brand-building
Packaging is a powerful way to market and promote products. Clever, creative packaging can boost sales and differentiate products. Recent examples include The Coca-Cola Company’s ‘Share a Coke’ campaign1 which used digital printing technology to create a sense of personalised engagement with consumers. The Castle Lite brand made use of thermochromic technology, which enabled a change in bottle colour when a beer is “extra cold”. Simpler changes can also be used to shift brand perception and association. For example, glass packaging can be used to create a sophisticated feel and reposition a product from mainstream to premium.

More than just bubble wrap and boxes
Packaging is an exciting industry that continues to offer growth. Distinctive packaging is an asset to brands and, consequently, is increasingly complex - both in design and function. Successful packaging companies have adopted a focused strategy on specific segments and niche products, resulting in specialisation and economies of scale. They have been flexible in adapting to demands and trends. Clients in our portfolios have exposure to such companies through our holdings in Mondi, WestRock and Bowler Metcalf. [1]

The trends at a glance

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<td>Designs to differentiate products and make brands stand out from the crowd</td>
<td>Board packaging to protect goods for transport</td>
<td>Designs which decrease weight through the changes in the type and volume of material used</td>
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Source: Kagiso Asset Management research

1 Coca-Cola branding was removed from one side of its bottles and replaced with an invitation to “Share a Coke with [one of 250 names popular in each specific market of distribution]”. 

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