

Creating Value Through Packaging

**Unlocking a New Business
and Management Strategy**

Jim Peters

Brian Higgins

Michael Richmond, Ph.D.



Packaging Technology Integrated Solutions

Creating Value Through Packaging

Produced by:

DEStech Publications, Inc.
439 North Duke Street
Lancaster, Pennsylvania 17602 U.S.A.

Copyright © 2013 by HAVI Global Solutions
All rights reserved

No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission from HAVI Global Solutions.

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

Main entry under title:

Creating Value Through Packaging: Unlocking a New Business and Management Strategy

ISBN: 978-1-60595-087-7

Preface

Some say we're in the "post-marketing era." Others use the term "post-consumer era." Whatever term you use, we're already into its outer edges, and it is changing business directions. Three factors dominate it:

Consumers. They drive it by having more knowledge at their fingertips than ever before. In many ways, they are better equipped than the businesses that woo them. Social networks and content from peers shape buying decisions more than advertising and marketing plans.

Global changes. The bottom of the pyramid is a huge market and serving it is the right thing to do. This global market needs business models that go well beyond the traditional ways we have marketed products.

Holistic strategy. Savvy packaged-goods businesses have to embrace new ways to deliver products that fit consumer needs. It takes a management strategy that goes all the way from the first germ of an idea to the point where the product's ultimate consumer discards the package. We call that the Holistic Packaging system.

Within that spectrum, we see packaging growing beyond being a support function that puts products in some kind of container. It becomes a strategic function because it supports new directions. It is "Big P" packaging, and here's how it has a huge impact. In the marketing era, a business could thrive by offering a good product at a fair price. By 2020, successful pack-

aged goods companies will have to offer the best product at the lowest price. That's both businesses that sell to consumers and those who sell in the business-to-business arena. Advertising and marketing will no longer define "best product at lowest price." Consumers—and their "buying" agents, the retailers—will define that. Government and non-government agencies will more strongly influence product offerings, providing the administrative tools to implement "green" and social agendas. Packaging helps address those directions.

Business success in the new scenario will rely on a holistic strategy. The systems approach becomes mandatory for success, and companies have to do a better job of integrating all the functions involved in development, execution and delivery of a packaged product. We're going to suggest that "Big P" packaging is growing as a function to fill this need. It is a business function that spans the entire range of a packaged goods company's activities and brings the holistic agenda to the table. In doing that, it becomes a strategic enabler that helps other functions deliver benefits to the consumer.

- Like procurement, it reaches into quality assurance of suppliers, and increasingly, their suppliers.
- Like R&D, it reaches out to the technical horizon as it seeks both needs and answers.
- Like production and operations, it contributes to efficiencies that hold costs down.
- Like marketing, it ties into consumer research and into marketplace trend analysis. Packaging also communicates the brand, often reaching people in places that advertising can't. It defines what a brand or product is to potential buyers, and it does that on a global basis. It is the silent salesperson.
- Like sales, it answers customer needs, specification and idiosyncrasies.
- It embraces sustainability efforts. Sometimes it is the most visible statement of a company's commitment to "green" business practices.
- It plays a role in defining margins and profitability.

Our premise is that if Big "P" holistic packaging systems span all these activities, then management needs to see it as a strategic

enabler rather than a technical support function. Those who work within packaging need to enhance packaging's strategic role by embracing the bigger picture. It is one big step toward surviving—and even thriving—in a world whose economic model is being reshaped.

Our background is in packaging and its business functions. Packaging's historic role has been to put the product in some kind of container, protect it through distribution, carry a promotional message on store shelves, and make it easy for the consumer to use the product. We have found that the process is getting more complex—at about the same pace that business is getting more complex. If the packaging function fulfills its strategic role, it can help improve product success rate, speed time to market and help business move on a more strategic path needed to thrive in a changing world.

In describing the why's and how's of doing that, we want to thank our collaborators. Something of this scope cannot be the product of just three people. As we've gained depth in our understanding of packaging, we also gained a network of insightful people who have helped us do that. Without their thoughts, this perspective would not have emerged.

JIM PETERS
BRIAN HIGGINS
MIKE RICHMOND
October 2012

1 || *Five Seconds that Signal Your Future*

A scenario . . . It is early morning in Atlanta and early evening in Mumbai. Half a world apart, two shoppers scan a store shelf and reach for a new nutritional drink brand. In the U.S., it's a liquid in a 250 ml bottle; in Mumbai it's in a single-serve pouch. Each package drew consumer attention with a shape and message that clearly said it offered more value than its competitors. Doing that requires a holistic approach to packaging. On one level, the approach deals with a common element—the nutritional value and how to protect it. But the process also deals with differences—perceptions, distribution channels, packaging suppliers, communications, regulations, environmental issues and more. By integrating all the pieces, the brand owner is able to step closer to redefining a product category and being its leader globally.

The story above says this: The right packaging for a product influences the consumer's buying choice. The packaging protects the product and tells the consumer that it answers a need; at the same time, it creates profitable market for businesses. The story is a "what if" example, but it could become reality some day if product, packaging and consumer research come together. It could mean sizeable revenue for a company that does it right. It is not fantasy. We've seen parallel innovations that have achieved similar market impact globally.

Here's a real-world story that shows just what packaging and product can do. Method Home Products delivers this benefit to consumers: It brings design and an emotional connection to home cleaning products with packaging. Consumers win because Method packaging brightens their décor. The company wins, too. Industry observers say that an initial investment of \$300,000 has blossomed into a business with about \$100 mil-

lion-plus in sales. Method gives consumers design in the home and gives them the “green” products they want. Packaging is an integral part of the process.

PROJECTING INTO THE FUTURE

If your business sells packaged goods, you have the same potential that our hypothetical nutritional drink and Method Home Products have. You also face challenges that we have seen play out across companies ranging from start-ups to *Fortune 100* firms. Today, those opportunities and challenges exist in economies around the world, and here’s a thread that runs through all of them:

Building for the future demands you take a strategic approach to the way you develop, package and market products and brands. Some would say the old ways of doing these business functions are broken and business must let go of old ideas. Strategies for the future need to embrace the emotional, psychological and branding side of packaging and products. That is as true for luxury goods sold in New York City as it is for bottom-of-the-pyramid products sold in rural India. Wherever you are, business strategies need to take a holistic approach that embraces the physical package because it is intertwined in the eye and mind of your consumer and customer.

Some businesses do that a lot better than others. Here’s a backdrop: Between 80 and 90 percent of new products fail—they are off the market in less than two years, often a lot quicker. They are lost investments in both time and money.

- P&G is a global brand marketer that institutionalized a process to cut the failure rate to about 50%. If you are a glass-half-full person, that means a 50% success rate against an average success rate of only 10% to 20% for all consumer products. P&G leverages consumer insights to develop packaging, communication and brand strategy. P&G’s process has an uncanny way of connecting the dots and making packaging an integral part of its strategy.
- In China, the Future Cola brand grew to be the No. 3 soft

drink brand in just a decade, behind Pepsi and Coke. It did that with packaging similar to the Western brands, but with messaging that appealed to Chinese pride. It also leveraged a distribution strategy that targets rural China. The brand's owner, Hangzhou Wahaha Group Co., boasts more than US\$ 5-billion in sales.

- Target Stores compete with Walmart by tailoring the shopping experience and using packaging to build its retail brand position. The strategy helps Target to achieve higher margins and to remain a viable competitor against the world's largest retailer.

You will see more examples as you go through this book. Some involve a little luck, but the greater proportion of win-

Above all else, 'See packaging as a lever'

When we assess how leading-edge companies maintain their marketplace edge with packaging, one concept keeps popping up. Leaders use packaging as a lever to enable the entire innovation process. It is part of a systems approach, or, in today's jargon, "holistic" thinking. Packaging helps you be aware of your internal competencies, and it shows you where gaps hinder results. It embraces every facet of innovation—customer and consumer needs, design, sustainability, sourcing, and more. If you take nothing else from this book, take away the concept that packaging as a lever—coupled with holistic thinking—leads to successful business solutions.



Figure 1.1. Packaging leverages all facets of innovation.

ners comes from companies who have a packaging innovation strategy in place. Packaging can be a route to profits, if it is done right. It extends beyond the technical and operational aspects of packaging. We believe packaging helps shape success when companies look, think and embrace it as a strategic management function.

A NEW WAY TO LOOK AT PACKAGING'S VALUE

The ability of packaging to deliver bottom line results depends on the value it delivers, often through innovation. Yet, many definitions of innovation don't incorporate a link to value. We think the connection is critical, and here's the definition we use:

Innovation means:

- Developing products and packaging with benefits that increase value to the buyer.
- Positively influencing the consumer's experience, and doing that at an acceptable cost.
- Aligning product and packaging with your organization's business needs.

A few thoughts to amplify the definition:

The term "benefits that increase value to the *buyer*" applies to consumers and to buyers in business-to-business or institutional transactions. For the consumer, we deliver value from portable juice drinks; for a business that buys industrial cleaner we can deliver value in terms of ease of use. To the operating-room nurse, value is in the security of unpacking a sterile medical device. The concept of value applies, too, to transactions throughout the packaging value web—raw material suppliers to converters, packaging manufacturers to consumer packaged goods companies. Whether it is the consumer or a customer on the receiving end, delivering value is what shapes success.

Throughout this book, we also use the term "experience." In developed economies, benefits are in terms of experience—how the consumer feels about the brand and the experience with the product and package. Beyond the consumer, each transaction

along the packaging value web is built on the value and experience at the ultimate point of use.

Finally, the definition signals the need to align a product and package with the seller's business objectives and goals. Each company has different strengths and weaknesses, and that means a value analysis process can give two different answers, even when the target market is the same. That's OK as long as each company aligns its actions with its own strengths and weaknesses.

Here's one way to expressing packaging's value. It can provide a way to analyze the impact of a holistic, strategic packaging process. We call it the PTIS Packaging Value Formula, and it represents a concept. It is based on the value formula you find in business management books, except that it specifically details packaging's contribution. Our version looks this:

$$\text{Value}_{\text{buyer}} = \frac{\text{Product Benefit} + \text{Package Benefit} + \text{Experience}}{\text{Price}}$$

Figure 1.2. Packaging Value Formula.

Who receives the value? The value subscript in our example says “buyer.” That can be a consumer, and it can be a business-to-business or an institutional buyer.

What are the benefits? Both product and packaging deliver benefits; the product's role is probably the subject of a book in itself. For sake of simplicity, we'll assume a constant product benefit as we explain the formula.

The packaging benefit, as we look at its role, is a critical part of the formula; it is a piece that acknowledges packaging's strategic role. It is critical because consumers and customers buy benefits and experiences rather than buying packaging. They buy freshness or longer shelf life; they don't buy oxygen transmission rates. This changes our thinking—it emphasizes packaging's benefit rather than how it works. It is a thought process that emerged in the mid-'90s and has grown slowly into a major direction. It is still not the predominant mindset among packaged goods companies, but it is widespread enough that packaging's role as a strategic tool has probably passed a tipping point. Here's how the emphasis on benefits plays out along the packaging value web.

Compare side-by-side

The formula works when we use it to compare alternatives where packaging changes the equation. Here's a simple example—sandpaper sold in a local hardware store. One version of the product is single sheets sold in bulk; a typical cost is \$0.79 per sheet. The store also sells five sheets in a paperboard sleeve; the package sells for about \$0.89 a sheet. Packaging adds the benefit of convenience to one market segment—usually the do-it-yourselfer who appreciates the way the package organizes the sandpaper and is willing to pay more per sheet. If the packaging cost is less than the increased selling price, then the marketer gains a better margin based on packaging. It certainly gets more complicated in other instances, but the basic principal remains—use packaging innovation to increase value and margins. (See the detailed example in the Appendix and References.)

Benefits versus function

It has been a long-term practice among packaging professionals to talk in terms of functions; we easily say, “The packaging material has better oxygen or water vapor barrier.” In a strategic approach, we need to translate that into benefits. By saying, “The package keeps the product fresher,” we focus on the benefit rather than the function. Here are some of the benefits packaging offers:

- Fresher product
- Newness
- Better taste or product performance
- Convenience and time savings
- Sustainability, from the viewpoint that the consumer has a positive reaction to a package.
- Affordable luxury
- Safety
- Cleanliness
- Availability

The benefits packaging offers also influences the value formula's *experience component*; that factor arises from the consumer's or customer's perceived benefit from a product and its

packaging. It really is a measure of how well the product and package communicate benefits. The result is the “AHA!” a consumer expresses when she finds something that solves a problem she didn’t know she had. The experience factor also expresses the brand equity earned in the product and packaging; advertising, packaging and product help create equity. Today it includes consumer-generated equity developed through social media.

Here’s how packaging’s role has traditionally been seen when viewed from the functional perspective:

$$\begin{array}{c} \uparrow \\ \text{Value} \\ \text{buyer} \end{array} = \frac{\begin{array}{c} \text{Product} \\ \text{Benefit} \end{array} + \begin{array}{c} \text{Package} \\ \text{Benefit} \end{array} + \text{Experience}}{\text{Price or cost} \downarrow}$$

Figure 1.3. Packaging’s value from a functional view.

The formula says: Cut the cost of packaging to reduce—or at least hold down an increase—in the product’s price. When we look at the equation from the benefits perspective, the formula looks like this:

$$\begin{array}{c} \uparrow \\ \text{Value} \\ \text{Buyer} \end{array} = \frac{\begin{array}{c} \text{Product} \\ \text{Benefit} \end{array} + \begin{array}{c} \uparrow \\ \text{Package} \\ \text{Benefit} \end{array} + \begin{array}{c} \uparrow \\ \text{Experience} \end{array}}{\text{Price}}$$

Figure 1.4. Holistic view of packaging value.

What this says is that by using packaging to deliver benefits and positively influence experience, the value to the buyer goes up. We’ve not indicated a direction here on price of cost of packaging, and true innovation may even allow a price decrease. The details will vary, but the increased value to the consumer can outpace the value delivered by the “squeeze the packaging cost” approach. Increasing value by innovation is what this book is about.

NINE STEPS TO DELIVER VALUE

In more than a decade of working to help hundreds of packaging companies define value, we’ve seen some key steps emerge.

Gut check on packaging's benefits

Sometimes, we need to take a step back and assess the benefits a package delivers to consumers. In Chapter 2, our colleague Jack Gordon offers a “gut check” management tool on how to assess if consumer insight research is on-target. Simple, he says, “Ask yourself if the benefit you think you are delivering is a *real* benefit to the consumer.” Is it something that will grab the consumer’s attention and make them buy what you have to offer? Will it deliver an “AHA!”? We suggest doing that for every packaging innovation. The legacy of packaging failures is littered with stories of benefits that packagers and suppliers thought they were delivering. Yet, the consumer said “ho hum” and ignored the packaged product. Asking the question honestly is a way to keep ourselves on the straight and narrow when we get caught up in our own enthusiasm.

They are not “cookie cutter” steps that apply the same way in every case. Each company has its own business objectives and processes that simply don’t allow a one-size-fits-all approach. However, we’ve found enough common elements that build a good framework on which any packaging operation can grow and support its organization’s goals. Here they are:

1. *Know the consumer and customer in depth.* Research has gotten more sophisticated. It has to, because today we need to have insights on the consumer’s emotional needs. The consumer initiates the direction for the entire packaging development process. Consider the customer, too. If it is a retailer, it adds an additional layer of concern and requirements; we outline those in Chapter 3.
2. *Know your distribution network.* Packaging has to work in multiple channels that reach consumers, institutional buyers, foodservice operators and more. You need to know the paths, intricacies and idiosyncrasies of the distribution channel in which you participate. Not knowing is like going into a minefield without a map.
3. *Know and leverage the packaging value web.* We use the term “value web” instead of the more traditional “value chain” because the relationships have become so much more complex. To be successful, each company in the

value web depends on all the other organizations involved in packaging. It goes well beyond your supplier and your customer—today it includes organizations with social goals. On the supply side, you often have to follow your source of supply all the way back to the field where the crops grow or the location where a substance is mined. It is a web rather than a chain.

4. *Build effective teams.* You cannot accomplish any of the other steps without having effective, cross-function teams in place. The marketing-packaging link has become readily apparent; links to production, engineering, legal, supply chain management, logistics and others are critical, too. With these links in place, packaging becomes a hub in a network that spreads throughout an organization. In doing that, packaging truly earns its place as a strategic function.
5. *Think strategically.* Put the systems approach on steroids. It means you have to have a portfolio of projects in the pipeline. Some with immediate deadlines, some extending out five to ten years. By getting out in front, you can connect the links that deliver the best results.
6. *Build sustainability into your efforts.* In the past decade, eco-friendly, green and environmentally friendly pressures have reshaped packaging development. Sustainable thinking needs to start with the first step in investigating a new product and package, and it needs to continue through to end of life scenarios.
7. *Understand that packaging plays in a global arena.* That's why leading companies have quality control people in China. They also follow global trends on raw material, converting, technology and design trends, and they stay aware of technology being developed in other parts of the world.
8. *Think open innovation.* The days of doing it all yourself in-house are gone, even for the largest organizations. The challenge is to develop an understanding of what technology and solutions are out in the marketplace, how they fit into you business needs, and how you can work with technology owners so both sides benefit.
9. *Integrate packaging into your organization's strategy.* None of the above will deliver results unless they

are congruent with your organization's business strategy. Effective packaging executives need to know their corporate DNA. For some companies, the DNA says, "We are a high-efficiency, low-cost producer." For others it may say, "We are a leading-edge company that creates a new paths from holistic solutions." Neither is good nor bad; they are foundations on which a business is built, and development efforts need to build from the foundations' strengths.

This book's purpose is to address the details of how you can take those steps and do it with the greatest efficiency.

Checklist: Nine steps to deliver value

1. Know the consumer and customer in depth.
2. Know the distribution network.
3. Know and leverage the packaging value web.
4. Build effective teams.
5. Think strategically.
6. Build sustainability into your efforts.
7. Understand the role that packaging plays in a global arena.
8. Think open innovation.
9. Integrate packaging into your organization's strategy.

WHAT'S DRIVING THE CHANGES IN PACKAGING

The final piece of the "big picture" is the external drivers shaping the marketplace. These are the overarching events that, in the broadest way, shape our reactions to the market. One thing you'll notice is that there are a number of distinct, strong drivers that don't lend themselves to being categorized as the "new normal." If there is any way of defining a "new normal," it is that change is accelerated and the tools to deal with it also change quickly.

Driver 1. Global opportunity, with risk

We're in a global economy that is growing more slowly than in the '00s. Growth was up significantly in 2010, following recovery from the 2007 recession. It slowed in 2011 and is expected to slow further in 2012. For developed economies, pro-

4 || *Answers Are in the Value Web and Teamwork*

A scenario . . . Dallas. The bachelor who tossed the frozen dinner into the microwave didn't particularly see any difference in the tray versus the one he threw into the microwave a week earlier. Yet, innovation by the food packager, tray supplier and raw material suppliers improved the tray's carbon footprint and cut its cost with a filler. As an innovation, it is mid-level on the scales of risk and impact, but underscores just how the integrated value web supports innovation. Let's look along the value web and see who drove this innovation. The impetus came from special interest groups and retailers who want to cut packaging's environmental impact. The food packager was the focal point and also engaged the value web. First, the company contacted its tray supplier; at the same time it went to a material supplier and an overseas university think tank. The global resources across several levels of packaging made the innovation happen.

Packaging's reach, as a business function, is far, wide and complex—so much so that we refer to its reach as the “packaging value web.” It grew from a simpler value chain model in just more than a decade; that growth is a major reason packaging has become a strategic business function. Here's our premise: The process of packaging development demands collaboration within a company and outreach to external resources. In doing that, packaging becomes an enabler for other business functions. Consider these connections that packaging makes regularly that enable other business functions, both inside and outside an organization:

- It collaborates with groups that influence business plans. Packaging opens pathways to innovation, sustainability and cost-control.

- Packaging helps set strategic sourcing paths. The contract packaging option, for example, leads to cost analyses of production options and can be a “go-no-go” factor in deciding to launch a new product.
- It builds a pathway to technology and innovation. In opening routes to those areas, packaging helps to address the changing business needs.
- Through transport packaging needs, it joins the logistics network; it can lead to collaboration with third-party, and even fifth-party, logistics providers.
- It facilitates global options.

The value web addresses business uncertainty by giving you more knowledge for reasoned decisions. The links become an “insurance policy” to cope with uncertainty, and your goal is to know how every one of the “players” in the web can create risks or help you with answers that address your strategic needs. This value web serves both the packaging function, and it is also an enabler for other business functions. We think the best way to see how this web can help you is to take an in-depth look at it and some of the ramifications of working within it.

KNOW THE NEW INFLUENCERS

The value web, as an interrelated group of external organizations, has a great deal of influence on your product, packaging and brand character. You control that influence with your understanding of how the value web works. It has grown increasingly complex over the past decade. Let’s start with how it worked in the late 1990s.

Five core groups shaped the packaging development process. It was linear and largely went in one direction: Raw material suppliers sold product and new ideas to converters who used them to make packages sold to brand owners. Retailers took what the

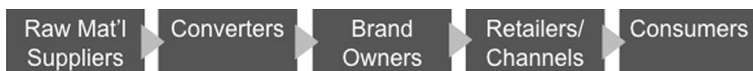


Figure 4.1. Packaging value chain in the late 1990s.

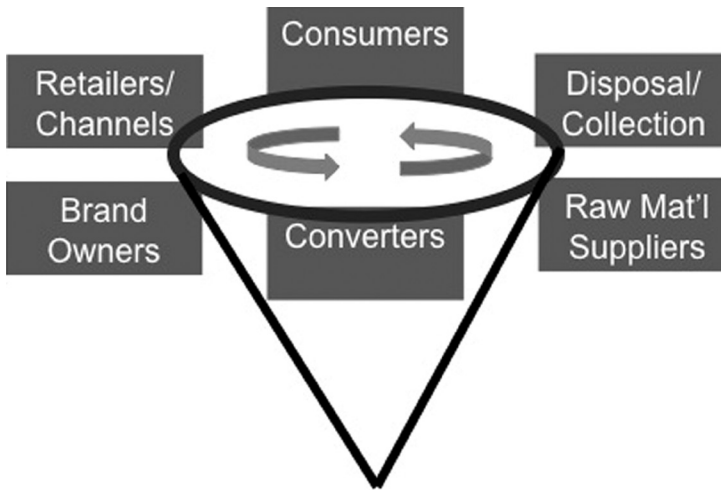


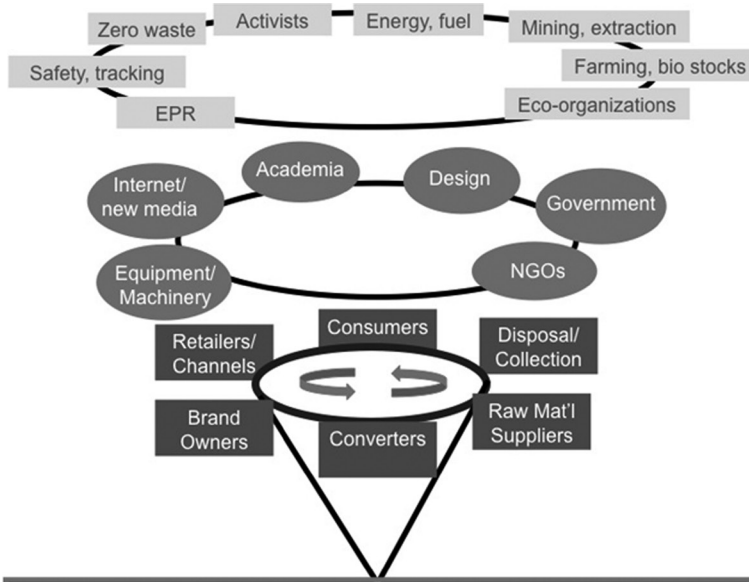
Figure 4.2. The integrated value chain and core players.

brand owners offered and sold the packaged products to consumers. Yes, there was some occasional collaboration back down the chain, and in rare cases, someone like a raw material supplier would go to a consumer to see how the packaged product really met the consumer's needs. But not often.

Growing consumer “clout” and a heightened emphasis on branding forced the value chain into a circle that was dubbed “the integrated value chain.” Everyone began talking to everyone else and the knowledge flow was no longer linear. Converters saw the role of consumers in shaping their offerings. Notice, too, that the function of “disposal/collection” earned a place in the chain. The idea of eco-impact has been around for a while, but its rising importance finally pushed it into the process.

Then, the first layer of “influencers” began to have more impact. Among the changes: Packaging design sometimes led—rather than being the last group to have input on an innovation. Retailers, in a highly competitive situation of their own, began to use packaging as a strategy; in doing so, they expanded their influence. Sometimes it even had an impact on packaging technology. The Internet's impact on packaging grew, and a base for social media formed. Equipment and machinery had more influ-

ence, too, as advances in digital controls added more flexibility and efficiency. Non-government organizations (NGOs) work in tandem with government; they gained influence, particularly in the eco-friendly arena. The government's role is clear and growing with packaging bans and deposit laws on local, state and na-



The value chain morphs into the value web

The term “value chain” has been part of packaging jargon for decades. Even as relationships became more complex, they often played out in a linear fashion. We’re suggesting the term “value web” to describe what is really going on now. Relationships extend well beyond traditional paths: NGOs, sustainability and raw material suppliers have more impact on packaging development. We think calling that the “value web” helps us to better understand and manage the process.

Figure 4.3. Integrated value web.

tional levels around the world. Expect academia's influence to grow, particularly in technology development. For NGOs, look at groups such as the Toxics in Packaging Clearing House—it aims to reduce heavy metals in packaging. GreenBlue, and its affiliate the Sustainable Packaging Council, is an NGO with positive ties to the packaging community as we continue to evolve the framework for sustainability. As states cut funds for universities throughout the United States, the institutions are looking at private revenue sources. Packaging technology is a fertile area. Even with their financial struggles, universities find ways to hire researchers and build labs.

The newest layer expands the impact of concern about the environment. Now, government and NGOs began to exert pressure in terms of extended producer responsibility (EPR) laws. Safety and tracking also gain importance as issues. An NGO named “As You Sow” puts a focus on corporate responsibility; in 2011 it put out guidelines to assess potential safety risks of nanomaterials in food packaging. When you deal with this category of influences, keep this in mind: Be transparent. Deal openly with NGO's and watchdog groups because they will bite if they think you are not being fully forthcoming. For a look at some guiding principals on doing that, read about the communication strategy outlined in Chapter 8.

Green concerns also drive expansion into forestry, farming and extraction of materials. Certifiers now validate where packaging is on an eco or sustainable chart. Certification raises conflict of its own. What is the best form of certifier: Industry-supported programs and independent third-party certifiers?

That's a quick tour through little more than a decade. In that time, we've seen packaging management go from working primarily with the organizations next to it on a value chain to a wide scope of concerns on the value web.

What's the effect of influencers?

How can that overview help packaging move into the future? First, by seeing how the new influencers will change business and packaging. The foremost impact is the move toward holistic views of packaging, manufacturing and business models. The value web serves to embed several considerations that weren't

even “on the radar” a decade ago. Green thinking is now an integral part of the process among thought leaders. What we’re calling holistic packaging becomes embedded in the development process. The value web also brings laws and regulations into the development process to a greater degree than the linear model did.

Here’s just one example of how it translates to business practices. In December 2011, Kraft issued its “green” footprint report. Much of its content, and much of the work behind it, reflects corporate responsibility and recognition of questions raised by NGOs. The report assesses agriculture’s impact on Kraft’s carbon footprint, an example of just how far the value web has taken strategic corporate planning. While packaging is a small part of Kraft’s carbon footprint, it is a high-visibility part; in its report, Kraft is quick to point out that packaging is down 100,000 metric tons in the 2005–2010 timeframe. The value web also embraces a global supply network. P&G, for example, sells its Olay brand of cosmetics in China with the same branding it sells in the United States. And, P&G has to deal with supply issues within a worldwide value web, including imposing Western-style quality control within the China market.

How does today’s value web compare to the older value chain, and what impact does that have on material suppliers, converters and packagers? Here are some key issues that are currently playing out:

- The value web’s span now reaches from farming and mining to package disposal, reuse and upcycling. On the supply side, recycled material sources will continue to gain in importance compared to traditional virgin material suppliers.
- Its cost/value structures keep changing, largely because of the volatility brought by its global reach.
- As packaging plays a larger role in company strategies, those companies face a more complex path through the web.
- Streamlining a company’s relationship with the value web becomes a priority management goal. By minimizing the effect of low-priority actions, packaging professionals can focus on high-priority actions and make their responses more robust and agile in the situations that matter most.

The new priorities

Priorities will continue to change, and here are the directions major influencers in the value web will have in the near term. Figure 4.4 shows how the priorities will change, relative to each other.

More consumer impact. With e-everything, they will exercise purchasing decisions from a position of greater knowledge. That means businesses have to address them with communication tools, including packaging. To do that, packaging will need to take more responsibility in translating market research and insights into the parts of the value web that deliver solutions.

Private brands. Chapter 3 details why and how retailers leverage them, and they are a growing tool for retailers in the future. Channels such as dollar stores are natural fits for private brands. Their management investment in packaging will grow—either by adding packaging staff or through third-party packaging developers.

Contract packaging and manufacturing. These companies grow and respond to private brands, retail uncertainty and innovation. They also address cost-cutting efforts. Their importance will grow for both national brand owners and retail managers as private brands find a new level in retailing. Contract manufactur-

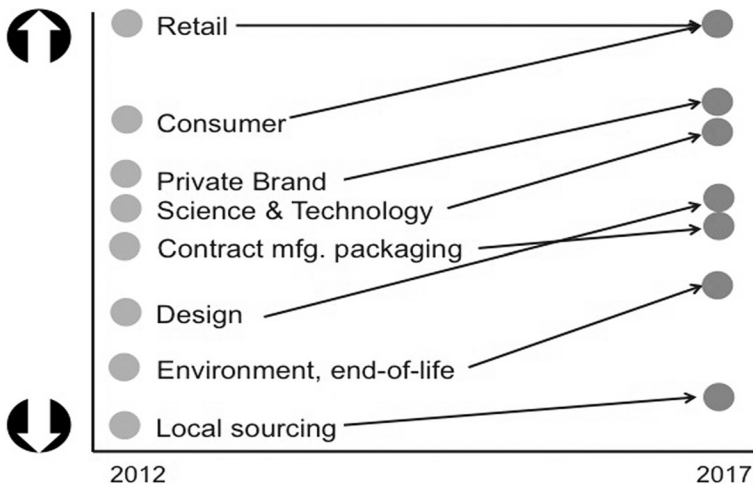


Figure 4.4. Component change.

ers and packagers have to deliver consistent quality so brand owners can build equity; the ability of brand owners to get production and packaging consistency is critical to success. There is already a solid base of contract packagers and manufacturers in place.

Packaging design. Each of the functions above relies heavily on design as an implementation tool. For those of us who have been around long enough to equate “design” with graphics, we need to keep telling ourselves that the function is much wider than that. It is structure, it is shape, and it is more. The idea of holistic packaging design that we outline in Chapter 5 will become the way we do things.

Environmental and sustainability. These factors continue to grow with particular emphasis on end-of-life issues. One trend we’re seeing in 2012 is the work to bring non-bottle rigid containers into the recycling fold. Containers such as thermoforms are now seen as too valuable to be consigned to landfills.

Going global and going local, at the same time. Global strategies will remain dominant; they can reduce cycle time and speed commercialization. Tooling and samples can be created more economically in Asia, and it takes concerted management attention to work right. Yet, an emphasis is increasing on local sourcing; it can reduce the cost of fuel as well as carbon footprint. The concern expressed by economists that huge trade imbalances are a cause for concern will also drive some decisions toward local sourcing.

Retail. It is in chaos now. Just one example: Internet packaging has emerged as a discrete channel and is coming with its own requirements and those are changing. Other factors detailed in Chapter 3 illustrate the chaos. We believe that as chaos becomes the norm, the amount of effort to keep up with it will decrease.

IT TAKES A TEAM TO DEAL WITH THE WEB

The packaging value web is complex, and it puts a burden on its participants. If cross-functional teams for packaging made sense a decade ago, then they are mandatory today. Packaging has to either get or supply information to multiple functions throughout the packaging value web. It takes teams to do that effectively, and they include both people within an organization and from outside.

9 || *Strategic Thinking, Innovation: Packaging's Pivot Points*

A scenario . . . Sao Paulo. The cookie package's bright graphics delight the pre-teen and his mother as they ask the store clerk to put it in their shopping bag. What they don't know is that innovation by a Brazilian film converter five years earlier brought them the home-compostable package. It resulted from an innovation program that assessed and weighed risks against benefits. First, the converter looked at "green" regulations and guidelines in Brazil and saw the best position was to anticipate changes. Then it worked with local cookie makers to get insights on consumer perception in the category. The converter tapped into a knowledge base it had to find plant-based materials that made compostable films feasible. The converter's business plan also factored in the export market where the film's increased value offsets the longer lead-time in shipping film to the north.

Take all the strategic components of packaging development we've examined in this book and tie them together. What you have is an action plan that turns an idea into a marketplace reality. Done right, the process delivers value to the consumer, including the business-to-business customer. It complements and supports the benefits of the product the package transports, contains and promotes. It is the practice of the value formula we detailed in Chapter 1 and amplified in the appendix:

$$\text{Value}_{\text{buyer}} = \frac{\text{Product}_{\text{Benefit}} + \text{Package}_{\text{Benefit}} + \text{Experience}}{\text{Price}}$$

In the context of integrating all of the parts into a whole, packaging innovation becomes a core business function. It delivers a sum that is greater than the value of all the parts. The process starts with a company's overall business strategy as input, and

it yields a package/product combination that supports that strategy. What we've done in this book is touch on all the packaging components that feed into the value formula; and we've showed that—in many cases—the product and experience factors are inseparable from the packaging components.

For leaders like P&G and Kraft, packaging innovation has grown into best business practice. Yet, the benefits of practices like those elude many businesses. A recent PTIS report points out that just 25% of business leaders say their companies are successful at innovation. More data from the same report: 70% of executives say that innovation is among their top three corporate priorities, yet two-thirds of them are not confident in their ability to execute innovation. To do that, each company has to adapt a working innovation process to its unique goals, market, supplier relationships, customer relationships, and culture. What we are going to show you are the key building blocks for innovation and let you determine how they can help you build an organization for innovation that fits your company's needs. The strategy is written primarily from the perspective of the consumer packaged goods company; the template, though, easily fits retailers with a strong private brand strategy. It also fits those marketing packaged products in the business-to-business arena. And, although our examples are of CPG projects, the process also applies to suppliers along the packaging value chain.

THE ROADMAP TO MANAGE FOR RESULTS

The steps that put packaging innovation at the pivot point of any business are actions that integrate packaging into a business strategy. From our research and from projects we've done, we see nine building blocks that help make packaging a solution. The process fits a broad spectrum of businesses, yet details can differ significantly for individual companies. Here are the Big "P" Packaging steps we have seen replicated in businesses with successful innovation programs:

1. Know your organization's strategic business drivers

We've all worked with some of these drivers—increased produc-

tivity, better margins, growth in market share, expansion of the distribution network, and cost savings that don't have a negative impact on the consumers' brand experience. We've talked about sustainability earlier, and for leading-edge companies, it joins some of the more traditional drivers. Other drivers include brand and product differentiation. Some businesses state innovation specifically as a driver, having objectives such as developing a target percentage of sales derived from innovation. It may take some work in pulling the drivers out of mission and vision statements along with three-year strategic business plans; sometimes, you may find insights on drivers in business unit operating plans. Knowing the specifics of the drivers helps shape a packaging innovation strategy.

How will you know you're connecting with the drivers? Our experience says to look at how your organization integrates customer and consumer insights into the development process. Is there a stage in the process where the team compares consumer insights and business drivers side-by-side? Does the development team analyze the fit, to see if insights and drivers complement each other? If so, and if there are realistic discussions at that point, chances are that innovation leaders understand the strategic business base for action. Best practice companies have multi-year integrated business strategies that link brand, product, packaging and capital plans. Most often, we see those strategies in a three-to-five year timeframe. Some push the window to 10 or more years. These strategies are supported by cross functional innovation teams; they are charged with identifying and connecting new materials, processes and knowledge to deliver known and anticipated need states.

Another key element innovation leaders have to understand is their organizations' risk-tolerance DNA. At the leading edge are the acknowledged risk takers; these companies will take on the venture to find disruptive innovations. Not far behind are the fast followers. For both types of organizations, there is a strong emphasis on connecting with the customer or consumer. These are the innovation leaders. Further along the spectrum are the "incremental line extension" operations and the "me toos." It is OK if your company is one of those, but chances of implementing a wide innovation program are slim.

2. Identify barriers to innovation

Here's what we hear people most frequently say are barriers to packaging innovation: Cultural resistance, red tape, organizational structure and the "not invented here" syndrome. "It costs too much," "the timing isn't right," and "we don't have the resources" are other barriers people talk about. A lack of focus, or lack of an innovation strategy, is another barrier. A final obstacle is the lack of a way to quantify value; you have to prove value to have meaningful innovation. If you see those barriers popping up frequently, expect that packaging innovation will be channeled into paths that more often produce incremental changes rather than true innovation.

Some of the subtle versions of the barriers include a business structure that follows traditional, linear business planning models. The traditional models rely on input from obvious, traditional sources; they often follow articulated consumer needs rather than the unstated needs. Chapter 2 contains a list of traditional consumer needs; these are the articulated needs, and they are really a point of departure. If an organization stops there, it is an impediment to innovation. Does your organization use tactics such as ethnographic research that uncover unarticulated needs? If it does, it has stepped past a significant barrier. In worst-case scenarios, a company ignores consumer insight research and becomes overly reliant on new technology itself, seeing it as a "silver bullet." Facing such barriers, any well-intentioned formal innovation program is a struggle at best.

3. Detail opportunities and problems

Look at opportunities and problems in terms of detailed business needs. We've listed some of the more common drivers, but how do they translate into opportunities? How do you translate them into solutions that address customer and consumer needs—convenience, health, wellbeing and more. We think Method Home Products offers a model; its business drivers include a strategy to grow through added product offerings and gaining market share in its current categories. It also wants to answer consumer needs for sustainability in products. By marrying the drivers with consumer needs, the company's 8X concentrated detergents suc-

ceeded in the marketplace. Consumer research also uncovered unarticulated needs about messy detergent packages. Method turned the household-cleaning category upside down.

4. Have a portfolio of projects

The portfolio concept says you have projects in the short, middle and long-range timeframes and with big, medium and small impacts. When you do that, you can give management a flow of successes. Management wants to see a return on its investment; if everything is a big, long-term project with a five-year payout, the risk is that management’s patience wears thin. A portfolio delivers a probability that your flow of successes can show the value in innovation. The grid below shows a small tactical change in the lower left hand corner; it is a graphic change to a package and it requires few resources. In the middle right hand column is



Figure 9.1. Grid for portfolio management.

an innovation that includes the consumer research and a significant variation on the container style; yet, it retains the same basic filling equipment with some modifications. In the upper right hand corner is a new packaging system that is strategic; it answers an unstated consumer need, opens up a new niche within a category, and requires a significant commitment of resources, particularly investment in new packaging equipment. However, it offers a potentially large payback. The portfolio concept says have projects that cover the range of options.

5. Use the value web as a management tool

The integrated value web detailed in Chapter 4 is the most strategic tool for innovation. Be ready to use the external components and have cross-functional teams in place to implement projects involving the value web. With the pace of innovation up to expressway speeds, you have to know the map now, rather than figuring it out as you go. How can you gauge if the process is working for you? Ask this question: “How well do your internal, cross-functional teams perform?” If they deliver the ideas and move toward goals, then chances are they are using the integrated value web effectively.

6. Sharpen your focus with future scenarios

Innovation is about the future, and scenario development may be one of the best tools to help you better estimate the future. Scenario building is more than forecasting. It looks beyond what traditional, straight-line management tools foresee. In scenarios, you develop alternate futures rather than extrapolate from the present. Here’s an example: create a scenario around your most heavily used packaging material—what happens if the price doubles or triples?” Look at the additives in your packages—build a scenario around what happens if one of them has such a bad public image that using it reduces sales. Done right, you build a system that evaluates alternate futures, challenges and opportunities for packaging. In addition, scenarios shape a continuing “strategic conversation” on how the future impacts your business plans. They are foresight driven. Creating scenarios is a multi-step process:

- Step one is to identify a focal issue. As an example, let's envision a company with a strong emphasis on sustainability with products whose value proposition is built on a friendly-to-the-environment concept. A focal point could be on materials that will be in the company's packages in ten years.
- The next step is to list factors and forces in the business environment that impact the focal point. Bio-resins development is one factor to consider, including development of bio-based raw materials. Consumer attitude is another factor. Technical development in other eco-friendly materials such as paper or molded pulp can be other factors.
- Then, identify critical uncertainties. For example, a "crops for people" trend could change raw material availability and pricing. The scenario-building process ranks the uncertainties and creates a grid. You also have to consider safety risks in nanotechnology; already, non-government organizations are looking at ways to assess those risks.
- Those steps create a grid, and the next action is to "flesh out" the scenarios. This process leads to implications and options. Those implications should answer questions such as "What would it mean to the company?" "What would it mean to relevant stakeholders?"
- A critical step is presenting the scenarios to management. Each management style will be different and suggests ways to get the information across. Graphic presentations often have a high value because management is visually attuned. Consider, too, that the presentation may have to stand on its own for subsequent "showings." You can follow the grid to present a logical sequence.
- Future scenarios develop options, not the "truth." They make your company more prepared to deal with possible changes, but they do not define the course of action. If an event triggers the need for action, it may involve a company-wide process where a number of functions bring their "truth" to the table. What packaging has provided is the enabling jumping-off point.

7. Have the right people in place

The right person is a generalist who also has to be a strong cham-

pion of packaging's value. The title may be Chief Packaging Officer, Director of Innovation or Manager of Packaging Development. The person's skills have to embrace technology and still work effectively within an organization. One factor we're seeing as we did research for this book is the growing awareness that packaging is a social tool. Good packaging managers have to be adept at understanding consumer insights and needs of society in which the packaged product is sold. Here are some skills criteria we suggest:

- Does the person have good team-building skills, especially when unconventional people are involved? Good innovation builds on good ideas, and the teams around packaging processes usually include people with different ways of seeing things. A creative designer is going to see a challenge differently than a technician in the lab. The leader's skill is to channel their efforts into products that deliver value.
- Networking skills. The right leader will sometimes be a "technology scout." At other times, a "librarian" for information on consumer preferences and habits around a particular product. The packaging leader has to rely on a network to sort through the right answers.
- Adaptability to lead in uncharted area. Innovation, by definition, takes teams into activities that aren't part of a company's normal operations.
- Drive to finish. Tenacity is a special value when major assumptions underlying a project may shift significantly half way through. Is the packaging leader comfortable with ambiguity? Can she avoid a pre-set conclusion on where an innovation initiative should arrive?
- Communication skills. Can the person take all the diverse components that shape a project and turn them into a cohesive story that management will understand quickly? Does the person understand that it is not about "water vapor transmission rate," but rather it is about "extended distribution channels"? Can the person walk around with the "elevator speech" in her head so that a chance, 10-second conversation with a senior manager is productive in getting an idea across? The elevator speech needs to impart knowledge.

Think in terms of what is the project’s status. What have we learned from research or technology scouting?

8. Don’t let the “crisis mode” swamp innovation

Everyone who is involved in packaging is going to spend time “putting out fires.” Yet, we have to make sure the innovation process unfolds and coexists with those priorities. The innovation leader needs to articulate the innovation strategy clearly and strongly. Management has to know just how important it is to support innovation along with day-to-day fire fighting. Management needs to understand that if they cut short development time, one result is the need to take more time later to fix the problem.

No big surprise, but in the real world the amount of time spent fighting fires—and the impact on innovation—clearly differs from the ideal. Here’s some proprietary, “best in class” research from Packaging Technology Integrated Solutions. In analyzing top consumer CPGs and packaging suppliers, PTIS found that more time is spent fighting fires, and less on innovation, than what the industry considers the best ratio. Management’s role is to try to shift effort from fire fighting to innovation.

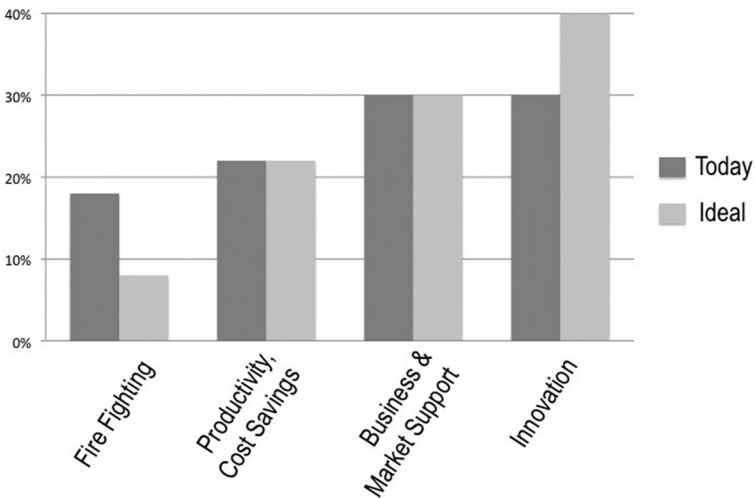


Figure 9.2. “Fire fighting” swamps innovation.

9. Develop the right metrics and know when to kill a project

Business is about results, and they need to be quantifiable. Build those metrics into the operation. For example, a metric might be a measure of how much revenue new products account for in the company's overall revenue picture. They might include a look at product successes, or failures; a company may establish a metric that it reach a 35% new product success rate, determined by how many new products are still on the market three years after launch. The metrics keep the innovation process focused and, if goals are met, demonstrate the return on the innovation investment. With the right metrics, you also have a better rationale when it is time to kill a project. The ability to do that is a healthy indicator of a successful innovation process. If you've set metrics to measure the lack of progress, it makes it a neutral business decision rather than a negative or black mark on the program leader or project team. It means that the innovation direction doesn't work against the established criteria and metrics.

Checklist. The roadmap to innovation results

1. Know your organization's strategic business drivers
2. Identify barriers to innovation
3. Detail opportunities and problems
4. Have a portfolio of projects
5. Use the value web as a management tool
6. Sharpen your focus with future scenarios
7. Have the right people in place
8. Don't let the "crisis mode" swamp innovation
9. Develop the right metrics

OPEN INNOVATION

A number of innovation models dot the business landscape, and the criteria outlined above embody the thinking behind them. One of these models is Open Innovation, and it is the predominant approach for packaging innovation for consumer packaged goods companies (CPGs), or, if you prefer, fast moving consumer goods (FMCGs) companies. These companies serve wide markets and rely on a range of technologies to do that.

How innovation plays out in the real world

Neil Darin is an innovation maven. He's a Senior Program Manager for Innovation and Sustainability at HAVI Global Solutions. What Neil brings to the table is a perspective gained in working with innovation programs for a Fortune 100 consumer packaged goods company. We asked Neil this question, "From your experience, what makes innovation work?" Like so much we found in putting this book together, it goes back to the basic issue of how innovation fits into a company's business strategy.

"Innovation is really about targeting where business opportunities are," he explains. "You have to start with your company's business strategy—what is the SWOT analysis? What are the quality challenges? What are the competitive strengths and weaknesses?" Darin goes on to list more criteria including insights on consumer marketing and regulatory trends. Finally, he says, ask what problems you can solve related to your situation by leveraging technology and design trends.

If you ask these and other questions, you get to a point of identifying what Darin calls "Opportunity Platforms." They emerge where business drivers, trends and regulations, and technology overlap. An opportunity platform is a solution that is specific to a market, an industry, and a company. Here's a way of looking at it graphically, and the opportunities emerge where all three circles intersect.

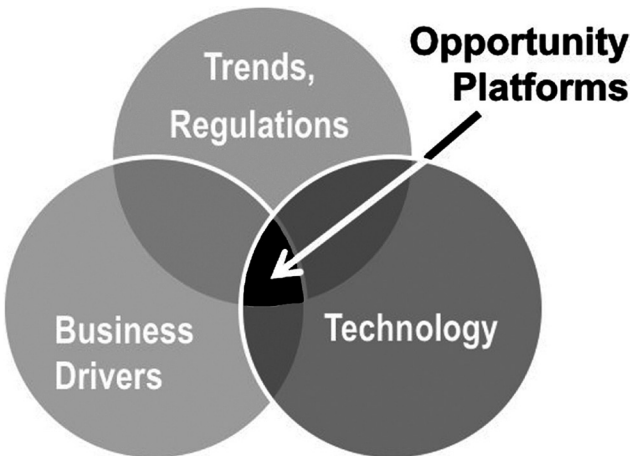


Figure 9.3. Where opportunity platforms merge.