

Packaging: Outlook and Trends

Realistic expectations are pinned to steady economic growth, while tempered by the cloud of overseas manufacturing.

THE PACKAGING MARKET as a whole had extremely robust growth during most of the 1990s. But with the recession of 2000-2001 and relatively slow recovery, overall growth slowed markedly, with some packaging types even declining. As we head into a new year, the usual optimism appears to be firmly based in reality. U.S. economic growth in the second half of last year was extremely robust, the best in more than 20 years. With the consensus forecast calling for more than 4 percent real growth in 2004, packaging markets should be strong.

The strength of the label market will continue, although growth in pressure-sensitive labels has certainly slowed. We expect to see continued shifts in the market, reflecting both changes in the packaging market as well as dynamics internal to labels, particularly the shift from paper to film. The overall growth drivers will remain, as consumer products companies continue to introduce new foods and beverages, and change the packaging of existing products to cut costs and to drive consumer demand. New required product information will also drive label growth, as will growing demands for portion packs and single-serve.

Folding cartons are likely to remain flat, at best, having declined last year. Flexible packaging will still be the star, growing at 4.5-7 percent a year, according to Ernst & Young Corporate Finance. Some sub-segments will grow faster, with stand-up and retort pouches both expected to grow by double digits.

Changes in the economic and business environment will, however, make the year interesting, providing both challenges and opportunities. First, the challenges. I've alluded to the need to temper expectations for robust demand based on projections of strong economic growth. How many of you had your business grow by more than 8 percent in real terms last quarter?

Even with such strong overall growth, the growth in the manufacturing sector—upon which packaging depends—is substantially slower. The manufacturing base is slowly becoming a much less important part of the economy, as its share has edged down. Fewer goods manufactured means that more will be packaged overseas. More packaged overseas means that packaging will be manufactured and printed locally.

China's growth and competitive advantages have also been much in the news. And the ability of China and other low-cost and fast-growing countries to compete for packaging and printing shouldn't been underestimated. China alone, for example, has about 20,000 printers who print packaging.

But that doesn't mean that there aren't still opportunities. The economy will grow. The most recent report of real growth in manufacturing, excluding transportation, was about 3 percent, with new orders growing nearly 4 percent.

A favorable economic environment provides the foundation to take advantage of new market opportunities. Converters can—must—be market-driven, and follow, lead, and assist their customers' migration into new packaging, such as the shift from paper to film. Equally important is the recognition that packaging is part of the customers' overall supply chain and manufacturing process. Converters will succeed by being proactive in re-engineering the supply chain. This is both internal as well as external. Internally, it's by becoming more efficient in your own manufacturing process and developing cost-advantaged solutions. Externally, it's by working with your customers to re-engineer the production value chain, taking costs and time out of the entire system.

Changes in packaging, new requirements and materials, fast response, and cost reduction, combined with an improving environment means that the challenges presented in 2004 will be a bit more exciting than those of the last few years. **PP**

John Zarwan is an independent consultant with more than 25 years of experience in printing and technology-driven industries. He specializes in change management, marketing strategy, and business development. He can be reached at www.johnzarwan.com.

by **John Zarwan**
CONSULTANT